



Institutional Credit Support and Provisions for MSMEs

S.Sharada

Research Scholar, Tumkur University. Tumkur, Karnataka State

Dr. Noor Afza

Associate Professor in Management Studies, Research and Business Administration, Tumkur University. Tumkur Karnataka State

ABSTRACT

The study has been covered the finance support available to MSME through commercial banks and financial institutions in line with RBI guidelines and provisions for MSMEs. The study focused on analyzing the annual credit plan report of Lead Bank of Karnataka (syndicate Bank) and Lead Bank of Bangalore Urban (Canara Bank) and their provisions to MSMEs. The analysis has been made to understand the Credit Gap in terms demand and supply of finance to MSMEs.

KEYWORDS :

1.1 Introduction

A number of factors influenced growth and development of MSMEs such as Government policy, market, human resources, management, innovation and finance. All of these factors are critical but finance is one of the most critical factorthan other factors. Remaining factors can only work to advantage if finances are in place (SME Gazette). Hence, finance plays a significant role in improving the overall performance of the enterprises. To understand the need of finance to MSMEs the Government of India and RBI have shown strong commitment to increase the flow of credit through commercial banks. In line with the Government of India and RBI policy, banks have made loan disbursement to the MSMEs by adopting single window finance, enhanced working capital limit up to Rs.25lakhs, competitive interest rates and specialized lending practices like Government sponsored loans, discounting bills of exchange, trade credit and others. Hence Banks have to adopt the strategy of expanding their business towards MSMEs to meet financial demands and to develop mechanism to improve the profitability of this sector.

1.2 Institutional credit support and provisions for MSMEs:

In the presence of credit rationing of financial institutions, the unmet demand for enterprise finance spill over to the informal financial sector. In fact, informal financial sources and self-finance retains a predominant share (78 percent of the sector's debt) of enterprise finance in the sector. Informal sector consists of both institutional sources (5 percent) such as moneylenders and chit funds, and non-institutional sources (95 percent) such as family, friends and family business. Even though informal sources of finance exhibit a high rates of interest, certain characteristics of loan such as timely disbursal of credit, less legal procedures of obtaining loan, shorter duration times cater to the needs of micro and small enterprises (International Finance Corporation, 2012).In India the total registered MSMEs are 15.64lakh fewer than unregistered MSMEs of 342.12lakh MSMEs that is 21 unregistered MSMEs for every registered one.(Report of prime minister's task force on MSMEs, Government of India, Jan, 2010)

1.3 Distribution of sources of finance to MSMEs

Sources of finance	Regd	Unregd	Total	Regd	Unregd	Total
Self finance	1362568	22850626	24213194	87.77	93.08	92.77
Finance through institution	174060	1177212	1351272	11.21	4.80	5.18
Finance through non institution	15864	520467	536331	1.02	2.12	2.05
Total	1552492	24548305	26100797	100	100	100

Sources: Fourth All India census of MSMEs 2006-2007

The table reveals that 92.77% of finance through self finance, only 5.08% and 2.05% of finance from financial institutions such as Banks, FIs and non financial institutions such as money lenders, creditors and chit finds respectively. The registered enterprises borrowed more

percentage of loans from **financial institutions** than unregistered enterprises.

Government of India realized the importance of MSMEs and its contribution to the growth of economy andidentified that it is necessary to establish a linkage between enterprise development and credit support through financial institutions. Provision of timely disbursement of credit and shorter repayment period are considered to be the essential characteristics of finance, particularly for micro and small enterprises (International Finance Corporation, 2012).

1.4Distribution of Loan to MSMEs from institutional sources:

Particular	Micro	Small	Medium	Total Number
No. enterprises availing loan (inlakhs)	1.81	0.18	0.01	2.00
No. enterprises availing loan from institutional sources(in lakhs)	1.56	0.14	0.003	1.703
Difference in %	86%	78%	30%	85%
Amount of loan taken (Rs.crore)	17244.9	22854.7	6420.63	46520.23
Amount of loan taken from institutional sources (Rs .crore)	13757.22	16562.25	4375.08	34694.6
Difference in %	80%	72%	68%	74%

Sources: Fourth All India census of MSMEs 2006-2007.

It can be analyzed from the above table that86% of the total Micro enterprises availed institutional finance followed by Small (78%) and Medium (30%) enterprises. on the whole 85% of the total MSMEs borrowed institutional finance. When considering the size of the enterprises is proportional tothe access of loan, it was found that 80% of total loan sanctioned to micro by institutional sources and Small and Medium enterprises availed loan from institutional sources were 72% and 68% respectively. Out of the total amount sanctioned to MSMEs 74% of MSMEs obtained loan from institutional sources.

1.5Recommendation of Committees set up by Government of India

In order to accelerate the growth of economy of a country, it is prerogative of the government to establish a linkage between enterprise development and credit support. In addition to that, timely disbursement of credit and shorter repayment period are considered to be the essential characteristics of finance, particularly for micro and small enterprises. Government of India has made the policy to improve the access of finance for MSMEs through priority sector lending in order to boost the MSMEs across India and also encouraged commercial banking to provide credit support for MSMEs. In this regard several committees, viz. Nayak Committee (1992), Abid Husain Commit-

tee (1995) and the Kapur Committee (1998) were established, these committees were in favor of establishing of at least one specialized branch for SSIs in each district. Ganguly Committee (2004) was in favor of adoption of a cluster-based approach for financing the sector, i.e., establishing specialized SSI branches in identified clusters. The banks have been permitted to categorize as SSIs general banking branches having 40% or more of their total advances to small scale industries. As a consequence, it is reported that the share of SSIs advance in net bank credit increased from 8.5 percent in 1969 to 16.9 percent in 1989 (Report of Trend and Progress of Banking in India). **However an adverse effect was NPA increased.**

In order to address the NPA risk involved in disbursement of loans, Government of India has announced the policy packages such as Credit Linked Capital Subsidy Scheme, Credit Guarantee Scheme, and Prime Minister Employment Generation Scheme etc for stepping up credit to MSME sector. Public Sector Banks will ensure to provide easy bank credit to MSMEs under specific Government Schemes constituted for different kinds of financial support. Even Private Banks and Foreign Banks have also extended their financial support to MSMEs.

1.6 Outstanding bank credit to MSMEs: (in crore).

Year	Public sector	Private sector	Foreign banks	All scheduled commercial banks
2004-2005	67800	8592	6907	83498
2005-2006	82438 (21.6)	10421 (21.3)	8430 (22.1)	101285 (21..3)
2006-2007	102550 (24.4)	13136 (26.1)	11637 (38.01)	127323 (25.7)
2007-2008	1,51,137 (47.4)	46,912 (257.1)	15,489 (33.1)	2,13,538 (67.7)

Table showing total funds lending to MSMEs by banks and financial institution in Karnataka

Year	Micro		Small		Medium		Total
	MFG sector	Service	MFG sector	Service	MFG sector	Service	
2010-2011	350029	757475	825511	546994	497760	1075458	4053227
2011-2012	494307	998951	1056039	688512	1713579	209071	5160459
2012-2013	467653	1138850	1640097	926078	2110618	312033	6595329
2013-2014	722757	1415301	1342981	1248424	693075	282523	5705061
Total	2034746	4310577	4864628	3410008	5014582	1879085	21513626

Source: Syndicate Bank report, Lead Bank of Karnataka.

The above table shows that advances to service sector is predominantly more in Micro compared to Small and Medium enterprises. This indicates that most of the micro enterprises are auxiliary units of Medium and Large scale companies. In the case of Disbursement of credit to Small enterprises, it is mostly more out of the total credit flow to MSMEs.

1.8 Institutional support to MSMEs in Bangalore Urban District:

Financial assistance to Micro, Small and Medium Enterprises by commercial banks and financial institutions in district of Bangalore Urban: Table showing total amount disbursed to MSMEs against total advances (amount in crores)

Year	Total Advances	MSMEs	% of total advances
2010-2011	211268	37684	17.83
2011-2012	232490	34893	15.00
2012-2013	242177	37016	15.68
2013-2014	301067	50040	16.62

Sources: annual credit plan of Canara Bank -2014.

1.9 Priority sector lending:

In order to attain equitable and sustainable development of economy at desired direction the Government of India and Reserve Bank of India guided commercial banks about obligatory deployment of fi-

2008-2009	1,91,408 (26.6)	46,656 (0.0)	18,063 (16.6)	2,56,127 (19.9)
2009-2010	2,78,398 (45.4)	64,534 (38.3)	21,069 (16.6)	3,64,011 (42.1)
2010-2011	3,76,625 (35.3)	87,857 (36.1)	21,535 (2.2)	4,86,017 (33.5)
2011-2012	3,96,343 (5.24)	1,10,514 (25.79)	21,760 (1.05)	5,28,617 (8.77)
2012-2013	5,02,459 (25.71)	1,54,732 (40.01)	30,020 (37.95)	6,87,209 (30.00)
2013-2014	6,15,976 (22.59)	2,00,158 (29.35)	30,020 (0.01)	8,64,135 (23.13)

Source: Reserve Bank of India Annual Report-2013-2014.

Analysis of outstanding credit table:

During FY2014, the total outstanding credit by banks to MSMEs in India stood at ` 8, 64,135bn, growing at a GR of 23.13%. Among bank categories, public, private sector and foreign banks have registered impressive growth of 25.71%, 40.01% and 37.9% in MSME lending in FY2013 compared to financial year 2014. However, Public Sectors Banks (PSBs) account for a major share compared to private and foreign banks. During FY14, total MSME sector advances by PSBs grew by 22.59% y-o-y to 1, 13,157bn, as against 5, 02,459bn in FY13. Moreover, Banks in India have been providing financial facilities to numerous enterprises through their branch offices, regional offices across the length and breadth of the country.

1.7 Institutional support to MSMEs in Karnataka state:

Banking system in Karnataka consists of 43 commercial banks, 04 regional rural banks, 03 cooperative banks and KSFC. Syndicate Bank acts as convener of the state bankers committee and lead bank of Karnataka for co-coordinating with all credit institutions in the allotted state to increase the flow of credit to core sector.

nance to preferred and desired sector of economy under priority sector lending and it has been stipulated that 40% total advances cater to priority sector.

Credit support to SSIs under **priority sector advances** by commercial banks and institution in Karnataka [Rs. in lakhs] table;

Banks / Institution.	2010-2011	2011-2012	2012-2013	2013-2014
Commercial Banks	637620	1111753	1011791	1559076
RRBs	551853	34759	48262	1490066
Co. Operative Banks	285	0	0	0
KSFC	34934	46427	56350	53332
Total	672839	1192939	1116403	1612408

Source: Syndicate Bank report. Lead bank of Karnataka.

The above table shows that the priority sector advance of commercial banks is found to be a major contributor to SSIs. RRBs and KSFC have achieved marginal advances. Disbursement of priority sector advances by the co-operative banks to SSI sector was 285lakh in the year 2010-2011 but the target has not been achieved by the co-operative banks from 2011 to 2014.

Table showing credit support to SSIs under **priority sector advances** by commercial banks and institution in Bangalore Urban [Rs. in lakhs]

Banks / Institution.	2010-2011	2011-2012	2012-2013	2013-2014*
Commercial Banks	12366	829381	1027625	458557
RRBs	29	20994	42472	46059
Co. Operative Banks	0	0	510	0
KSFC	14778	32422	36214	18016
Total	27173	882797	1106821	1269590

Source: Canara Bank, lead Bank of Bangalore urban.

Note: * up to september2014

This Table reveals that the highest target is achieved under priority sector advance by commercial banks then followed by KSFC and RRBs but the target has not been achieved by the co operative banks in the years 2010-2011,2011-2012 and 2013- 2014.

A percentage of achievements of total Priority Sector Advances with Advances to SSIs:

Agency/ Institution.	Annual advance to total priority sector	Annual advance to SSIs	% of Achievements
Commercial Banks	3978198	1070097 [96.68%]	27%
RRBs	620110	42472 [3.84%]	6.85%
Co. Operative Banks	508689	510 [0.05%]	0.1%
KSFC	46448	36214 [3.27%]	78%
Total	5153445	1106821	21.48%

Source: Annual Credit Plan, Syndicate Bank report -2013-2014.

From the table, we find that, 96.68% of the total SSIs advance from commercial banks. RRBs and KSFC have been held 3.84% and 3.27% of the SSIs advance respectively and there is only 0.1% advance sanctioned to SSIs by cooperative banks. When we compare the total priority sector advance to SSIs, we find that KSFC achieved 78% whereas commercial banks have achieved 27%. RRBs and co-operative banks hold only 6.85% and 0.1% of the total respectively.

Performance under DCP (District Credit Plan)

Agency/Insti-tution.	Annual target	Annual Achievements	% of Achievements
Commercial Banks	922.92	1084.92 (85%)	118%
RRBs	60.15	93.22 (7.31%)	155%
Co. Operative Banks	79.05	20.10 (1.57%)	25%
KSFC	150.00	78.29 (6.14%)	52%
Total	1212.12	1276.08	105%

Source: lead bank, Bangalore Urban District report-2013-2014.

Table shows that the priority sector advance of commercial banks is found to be 85% of the total priority sector advance. The remaining 15% of priority sector advance from RRBs, KSFC and Cooperative banks. The share of the Cooperative banks is least (1.57%) among the other institutions. Where as in the % of achievements RRBs is the leading institute than commercial banks, commercial bank held second position and followed by KSFC and cooperative Banks.

Sector Wise performances of priority sector lending:

Sector	Annual target	Achievements	% of achievements
Agriculture and allied	342.94	400.33	117
SSIs/NFs	443.42	464.67	105
Ops/Tertiary	425.76	411.08	97
Total	1212.12	1276.08	105

Source: lead bank, Bangalore Urban District report-2013-2014.

The share of the total achievement of the priority sector in agriculture is to be found 117% and it is followed by SSIs and other priority sector. Agriculture and SSIs have achieved more than the annual target of priority sector advance.

1.10 Bank wise data on disbursements under priority sector advances – A comparative study

Participants of lead bank scheme of Karnataka state constitutes 7 nationalized banks, 19 other than nationalized banks, 3 other commercial banks, 3 Regional Rural Banks (RRBs), cooperative sector and KSFC.

Banks	Total advances		Advances to MSEs		% of achievements
	Target	disbursement	Target	disbursement	
Nationalized					
Canara Bank	608878	296937	47322	59317	19.97%
Corporation Bank	329495	211317	134180	46282	21.90%
Syndicate Bank	419660	114012	70991	38590	33.84%
S.Bk of Hyderabad	133799	20614	31961	6737	33.41%
S.Bk of India	576886	116186	41609	7316	62.96%
S.Bk of Mysore	515738	171152	127924	37720	22.03%
Vijaya Bank	457769	133861	124728	46022	34.38%
Total (A)	3042225	1064079	578725	241984	22.74%
Oth. Nation-alized					
Alahabad Bank	10156	1098	3689	624	56.83%
Andra Bank	13539	5749	148	2815	48.96%
Bank of Bo-raoda	42589	6851	14103	5142	75.05%
Bank of India	375290	104291	113190	21455	20.57%
Bank of Mahar-ashtra	31448	11137	11466	6716	60.30%
Central Bank of India	53230	13859	15422	3184	22.97%
Dena Bank	73530	1994	52450	572	28.68%
Indian Bank	33328	7413	5488	1337	18.03%
Indian Overseas Bk.	129254	62934	10042	867	13.77%
Oriental Bk. Of Com.	26625	31388	9257	2023	6.44%
Punjab Natl. Bank	42206	7292	30031	2728	37.41%
Punjab & Sind Bank	0	0	0	0	0
S. Bk of Patiala	1087	299	581	229	76.58%
S. Bk of B & J	0	0	0	0	0
S. Bk of Travan-core	17608	1111	12415	1003	90.27%
U C O Bank	39837	5500	18364	1984	36.07%
Union Bank of India	118759	38266	22660	1415	3.69%
United Bank of India	0	721	0	102	14.14%
IDBI bank	137020	0	23777	0	0
Total (B)	1145506	299903	343085	52196	17.40%
Other commercial Bks.					
Karnataka Bank Ltd.	672902	94702	103014	23485	24.79%
ING vyshya Bank Ltd.	16806	3744	8796	2387	63.75%
Others	705249	317438	160293	122291	38.52%
Total ©	1394957	415884	272103	148163	35.62%
Total Commer-cial Bks.	5582688	1779866	1193913	442343	24.85%
Regional Rural Banks					
KaveriGramina Bank	198083	55483	17814	9085	16.37%
Karnataka Vikas Gr Bk	269007	97767	3841	1895	19.38%

PragatiGramina Bank	43316	77245	35293	15558	20.14%
Total (D)	900236	230495	56948	26538	11.51%
Co operative Sector	767966	292102	0	0	0
KSFC	85325	24299	66493	17118	70.45%
Grand total	7336215	2326762	1317354	445999	19.16%

(Source: Syndicate Bank Report 2013-2014)

It is found from the above table that percentage of achievement of SSIs disbursements against total advances to priority sector was 19.16% only during the financial year 2013-2014, of which commercial banks play a pivotal role in supplying finance to SSIs/ MSEs and its contribution towards this sector was 24.85% of total disbursements. It is followed by other institutions like KSFC and RRBs. The main objective of KSFC is to provide financial assistance to Micro, Small and Medium sector, this institution has achieved 70.45% of total disbursements. Whereas Regional Rural Banks had disbursed only 11.51% of total credit sanctioned to priority sector, there is no achievement towards SSIs lending by Cooperative Banks.

As far as disbursement of loan to SSIs has been considered Canara Bank lent Rs.59317lakhs, which is more than the lending of other nationalized banks, in case of other than Nationalized Bank have been taken the bank of India stood first, while considering the other commercial banks Karnataka Bank supplied credit of Rs. 23485lakhs more than the others.

1.11 Bank Wise achievements towards SSI advances in Bangalore Urban – A comparative analysis:

Banking system of Bangalore Urban, Karnataka state consists of 23 Commercial banks, 1 Regional Rural banks, 02 district Co-operative banks and KSFC. Total priority sector advance and advance to the SSI sector in Bangalore urban is depicted in the table below.

Banks	Total priority sector		SSI/NFS		% of achievements
	Target	Achievements	Target	Achievements	
Allahabad Bank	328	163	-	-	-
Andhra Bank	1350	705	637	-	-
Bank of Baroda	520	311	145	-	-
Bank of India	1261	1222	195	34	2.78%
Bk. of Maharashtra	352	306	15	20	6.54%
Canara bank	19536	30797	9787	10808	35.10%
CBI	1038	977	375	69	7.06%
CORP. Bank	2964	5259	457	965	18.35%
Dena Bank	594	616	37	-	-
IDBI	900	1908	150	-	-
IOB	531	455	67	45	9.89%
ING Vysya Bank	4723	8448	-	4500	53.27%
Karnataka Bank	1415	2708	276	-	-
KVB	1200	1487	300	-	-
PNB	2792	409	2105	402	98.29%
SYND. Bank	4490	2811	364	99	3.52%
SBI	4174	-	1260	-	-
SBM	7527	31277	2351	17655	56.45%
UBI	687	275	103	69	25.10%
UCO	1725	1584	90	37	13.45%
VIJAYA BANK	9340	15551	2572	3847	24.73%
SIB	299	1024	60	-	-
SUB-TOTAL	69371	108437	21346	38550(83%)	35.55%
RRBs	4535	9320	686	93 (0.2%)	1%
Co. Operative Bks.	5955	2009	11	-	-
KSFC	11250	7828	11250	7819 (16.8%)	99.88%
Grand Total	91111	127594	33293	46462	36.41%

Source: Lead bank, Bangalore Urban District report-2013-2014.

It is seen from the above table that, out of 83% of the total SSIs advance from 23 commercial banks of Bangalore Urban, KSFC holds 16.8% of the advance, RRBs only 0.2% and there is no advance sanctioned to SSIs by cooperative banks. When comparing the total priority sector advance with SSIs advance, the KSFC has achieved 99.88% whereas commercial banks have achieved 35.55% and RRBs only 1% of the total advance.

Considering the achievements of commercial banks in Bangalore Urban towards SSIs/MSEs advances it was found that State Bank of Mysore stands at first position in lending finance to SSIs/ MSEs (56.45%), Canara Bank stands next 35.10% followed by ING Vysya, Vijaya Bank and Punjab National Bank. Around 35% of the total Banks were reluctant to provide finance to MSEs under priority sector due to lack of confidence in Micro, Small Enterprises management, unfamiliarity with good borrower practices and creation of Non Performing Assets.

1.12 Banks finance to MSMEs:

Despite their economic significance, one of the major obstacles to the growth of MSME sector is its lack of adequate access to finance in spite of Government policy on priority sector lending by Banks and Financial Institutions. This study examines the supply of credit by various Banks and Financial institutions to the Micro, Small and Medium sector in the state of Karnataka and Bangalore urban.

Financial Institution wise disbursements to MSMEs in Karnataka state:

Banks	2011	2012	2013	2014
Canara Bank	707427	693928	776767	936532
Corporation Bank	445724	218332	314709	421220
Syndicate Bank	264368	328526	572866	518403
S.Bk of Hyderabad	63416	122927	130894	87521
S.Bk of India	992545	1680838	2350645	508367
S.Bk of Mysore	218331	246339	316664	380660
Vijaya Bank	150769	152563	213307	279604
Total (A)	2842580	3443453	4675852	3411914
Oth. Nationalized				
Alahabad Bank	19711	45016	41470	40928
Andra Bank	96476	84419	126454	83876
Bank of Boraoda	43398	50537	68201	89339
Bank of India	105778	89693	91170	132380
Bank of Maharashtra	21247	56748	86288	85695
Central Bank of India	14705	21657	35252	45093
Dena Bank	6174	7225	12069	28466
Indian Bank	35230	25613	45252	57649
Indian Overseas Bk.	35149	55210	74653	85384
Oriental Bk. Of Com.	19621	29391	30206	28060
Punjab Natl. Bank	50043	96139	107595	155114
Punjab & Sind Bank	2592	4181	4586	5736
S. Bk of Patiala	2804	2082	4853	10840
S. Bk of B & J	-----	3619	644	22340
S. Bk of Travancore	475	11759	14325	7956
U C O Bank	35127	34170	41857	49796
Union Bank of India	58502	59802	81186	126157
United Bank of India	5426	21181	19179	57468
ICCI Bank	-----	207409	69710	103630
Total (B)	549758	905851	955420	1215907
Other commercial Bks.				
Karnataka Bank Ltd.	124583	145782	173006	207534
ING vyshya Bank Ltd.	4770	12004	13693	29316
Others	297163	244268	357759	638146
Total ©	426516	402054	544458	973096
Total Commercial Bks.	3818854	47513788	6175730	5321313
Regional Rural Banks				

KaveriGramina Bank	7643	9423	26173	34725
Karnataka Vikas Gr Bk.	55318	66735	79276	83096
PragratiGramina Bank	16425	43481	43892	77054
Total (D)	79386	119639	150803	194875
Co operative Sector	23670	149602	111597	21929
KSFC	125280	134271	157199	166954
Grand total	4053227	5160460	6595329	5705071

Above table indicates that MSMEs have availed loan from banks and financial institutions, wherein commercial banks have sanctioned more loans (93%) compared to RRBs (3.41%), Cooperative Banks (0.38%) and KSFC (2.92%). State Bank of India had sanctioned highest amount of credit to this sector but during the year 2013-2014 sanctioned credit decreased by 0.21% compared to the previous year 2012-2013. Whereas Syndicate Bank credit flow shows upper trend, it has increased to 0.9% in 2013-2014. Considering the other nationalized Banks, we find that finance to MSMEs Punjab National Bank stood at first followed by Union Bank of India, Bank of India and others. Karnataka Bank plays a leading role in sanctioning loan under the scheduled banks lending.

1.13 Conclusion:

Commercial banks are considered the primary route of funding to MSMEs; over the years there is a significant increase in credit extending to this sector by commercial banks but percent share of MSMEs credit to Net bank credit consecutively declined from 30% in 2012-2013 to 23.13% in 2013-2014 and also in case of priority sector lending, the commercial banks would have achieved the target of 40% but it is noticed that about 5% MSMEs have been covered by institutional funding and approximately 95% of units remain to be brought in to banking fold. It is observed that there is indeed a credit gap in terms of demand and supply of financing MSMEs. Hence, the commercial bank strategies to fill the credit gap.