Constraints of Public Sector Banks in Financing Micro and Small Enterprises

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ABSTRACT *There is a greater role to be played by Public Sector Commercial Banks for funding Micro and Small Enterprises sector in accordance with the objective of the Nationalisation of banks for ensuring the flow of adequate funding to the productive sectors of the economy in general and small scale industries in particular. So, in order to study the constraints in financing the Micro and Small Enterprises, samples were taken from urban and semi-urban branches of Public Sector Commercial Banks located in Coimbatore South and Coimbatore North Taluks. The study revealed that lack of integrity of the borrowers, lack of infrastructural facilities with the borrowers and lack of management skills are the major constraints of the bankers to lend loans and advances to the micro and small enterprises.*

INTRODUCTION

Micro and Small Enterprises (MSE) sector has been developed as a highly vibrant and dynamic sector of the Indian economy over the last few decades. The sector contributes about 45 per cent of country's manufacturing output, 40 per cent of total exports of the country, employs about 69 million persons in over 29 million units throughout the country (12th five year plan) and the sector contributed 8 per cent of the country's GDP (Annual Report 2013-14, Ministry of MSME, Government of India). In spite of the major contributions to the economy the sector faces varied challenges such as handicapped in achieving economies of scale in procuring equipment, raw materials, finance and consultancy services. Among these challenges procurement of finance is considered as a major challenge. The MSE sector primarily relies on bank finance for their business purposes. Financing Micro and Small Enterprises is still not hassle free. In spite of several special efforts taken by the government and Reserve Bank of India to support the well-recognised sector of the economy to satisfy their financial needs, there are various bottlenecks faced by the bankers to fund the MSE sector. To identify some important constraints of the bankers in financing and to help the enterprises to flourish, an effort was made through the study.

METHODOLOGY

Size of Population and Sampling Technique

The size of population of public sector bank branches was 266 comprising of urban branches-166 number and semi-urban branches-100 number which are located within the coverage of Coimbatore South and Coimbatore North Taluks as on the date of 31st March 2011. By adopting random sampling method, 60 number of bank branches were chosen as sample size through lottery method which represents 23 per cent of the size of the population. The interview schedules were administered with the officials of 60 branches. The complete data in all respects could be collected from all the 60 branches thus, with a response rate 100 per cent.

RESULTS AND DISCUSSIONS

Contextual Profile of Sample Bankers

Table 1: Profile of Sample Bankers

Variables	Category	Respondents (N=60)		
		Number	Percentage	Cumulative percentage
Location of the branch	Urban	52	87	87
	Semi-urban	8	13	100
Type of branch	MSME branch	20	33	33
	Regular branch	40	67	100
Designation of the respondents	Chief manager	22	37	37
	Asst. Manager	4	7	44
	Branch Manager	16	26	71
	Senior Manager	10	17	87
	Asst. General Manager	2	3	90
	Marketing Senior Manager	4	7	97
	Relationship Manager	2	3	100

Source: Primary data

Table 1 exposes that 52 (87%) branches are located in urban area whereas the rest of 8 (13%) branches are located in semi-urban area. Under type of branches 40 (67%) branches are regular branches and the rest of 20 (33%) branches are MSME branches. Regarding the designation of respondents, 22 (37%) respondents are Chief Managers, 16 (26%) of them are Branch Managers and 10 (17%) of them are senior managers. The remaining respondents are Assistant Managers (7%), Marketing Senior Managers (7%), Assistant General Manager (3%) and relationship manager (3%).

Credit facilities offered to Micro and Small Enterprises
Table 2: Credit Facilities offered to Micro and Small Enterprises

Type of credit facilities	Respondents*	
	Number	Percentage
Term loan	58	96.7
Cash credit facility	58	96.7
Overdraft facility	38	63.3
Discounting Bill of exchange	28	46.7
Letter of guarantee	44	73.3

Letter of credit	36	60.0
Composite loans	34	56.7
Export Credit	10	16.6

Source: Primary Data;   *Multiple responses

It is understood from Table 2 that, 96.7 per cent of the Public sector banks had offered term loans and cash credit facility each. 63.3 per cent had offered overdraft facility, 60 per cent of the respondents offered Letter of credit facility, 56.7 per cent had offered Composite loan and 46.7 per cent had offered in the method of discounting bill of exchange.

Constraints of the bankers in financing Micro and Small Enterprises

To analyse the constraints of the bankers in lending micro and small enterprises, factor analysis technique was used to identify and cluster the agreeability level of bankers on varied constraints. Eighteen variables were identified. To test whether the relationship among the variables has been significant or not Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) test was applied. The result showed the value of test statistic .638 which means the factor analysis for the selected variables was found to be appropriate or good to the data.

Test of KMO and Bartlett's test of sphericity

The use of KMO and Bartlett's test of sphericity is primarily essential to measure sample adequacy for using factor analysis. The small value of KMO statistics indicate that the correlations between pair of variables can't be explained by other variables and the factor analysis may not be appropriate.

Table 3. KMO and Bartlett's Test

Kaiser-Meyer-Olkin	Measure of sample adequacy	0.38
Bartlett's test of Sphericity	Approx. Chi-square	524.21
	df	153.00
	Sig.	0.00

Reliability statistics

Cronbach's Alpha	No. of items	No. of variables
.638	60	18

The reliability of scales used in this study was calculated by Cronbach's coefficient alpha and normally it ranges between 0 and 1. All constraints obtained an acceptable level of a coefficient alpha above .7 indicating the scales used in this study were reliable. Using all the 18 statements as constraints for lending to micro and small enterprises, factor analysis is performed in order to group these attributes on priority based on the strength of intercorrelation between them called 'factors' and cluster these statements into the factors extracted and the results are presented in tables 4 and 4 A.

Table 4: Variables Explaining the Constraints of the Bankers

Variables	Factors						Commu-nality
	1	2	3	4	5	6	
1. Low self confidence in loan applicants	-0.05	0.05	0.89	0.00	0.15	0.12	0.85
2. Lack of spirit in running successful business	0.20	-0.22	-0.79	0.15	0.09	0.05	0.79
3. Non disclosure of full/incorrect information	0.82	0.12	-0.13	0.17	0.18	-0.31	0.86
4. Lack of training for the applicants	0.04	0.49	0.27	0.43	-0.10	0.22	0.61
5. Lack of educational qualification of the applicants	0.19	0.04	-0.28	-0.16	-0.50	-0.12	0.59
6. Less experience in business	0.19	-0.25	0.77	0.04	-0.14	0.05	0.74
7. Improper location of business	0.03	0.00	0.03	-0.86	-0.17	-0.01	0.80
8. No economic feasibility of the project	0.09	0.84	-0.07	-0.17	-0.04	0.26	0.81
9. Poor financial background	0.10	-0.90	0.03	-0.09	-0.21	0.15	0.89
10. Poor marketing arrangements for selling the products	0.12	0.08	-0.09	0.03	0.67	0.09	0.50
11. Lack of infrastructural facilities like water, electricity and transport	0.48	-0.19	0.24	0.47	0.12	-0.33	0.79
12. Non availability of skilled manpower	-0.05	0.09	0.01	0.05	0.15	0.90	0.86
13. Insufficient availability of raw material	0.47	0.46	-0.11	0.04	0.49	-0.37	0.83
14. High market competition	-0.29	-0.02	0.69	0.24	0.38	0.06	0.80
15. Lack of knowledge on business management	0.89	-0.08	-0.10	-0.05	-0.07	0.13	0.85
16. New product to the market	-0.49	-0.02	-0.01	-0.69	0.09	-0.09	0.83
17. No technical feasibility of the project	0.52	0.05	0.15	0.32	0.37	0.36	0.84
18. Insufficient collateral security	-0.06	0.37	0.38	0.33	-0.33	-0.09	0.60
Eigen value	2.65	2.29	2.16	2.03	1.55	1.49	12.17
% of variance explained	21.77	18.82	17.75	16.68	12.74	12.24	100
Cumulative percentage of variance explained	21.77	40.59	58.34	75.02	87.76	100	

Source: Based on primary data

Table 4 gives the rotated factor loadings, communalities, eigen values and the percentage of variance explained by the factors. Out of the 18 variables listed as constraints, 6 factors have been extracted and these 6 factors put together explain the total variance of these statements to the extent of 76.84 per cent. In order to reduce the number of factors and enhance the interpretability, the factors are rotated. The rotation increases the quality of interpretation of the factors. There are several methods of the initial factor matrix to attain simple structure of the data. The varimax rotation is one such method to obtain better result for interpretation and the results are given in Table 4 A.

Table 4 A: Results of varimax rotation

Factors	Variables	Rotated factor loadings
I (21.77%)	Non disclosure of full/incorrect information	0.82
	Lack of infrastructural facilities like water, electricity and transport	0.48
	Lack of knowledge on business management	0.89
	No technical feasibility of the project	0.52
II (18.82%)	Lack of training for the applicants	0.49
	No economic feasibility of the project	0.84

	Poor financial background	-0.90
III (17.75%)	Low self confidence in loan applicants	0.89
	Lack of spirit in running successful business	-0.79
	Less experience in business	0.77
	High market competition	0.69
	Insufficient collateral security	0.38
IV (16.68%)	Improper location of business	-0.86
	New product to the market	-0.69
V (12.74%)	Lack of educational qualification of the applicants	-0.50
	Poor marketing arrangements for selling the products	0.67
	Insufficient availability of raw material	0.49
VI (12.24%)	Non availability of skilled manpower	0.90

Source: Based on primary data

Six factors were identified having maximum percentage variance accounted. Four variables namely non disclosure of full/incorrect information, lack of infrastructural facilities like water, electricity and transport, lack of knowledge on business management and no technical feasibility of the project were grouped together as factor I and accounts 21.77 per cent of the total variance. Variables such as lack of training for the applicants, no economical feasibility of the project and poor financial background constituted the factor II and accounts 18.82 per cent of the total variance. Then four variables like low self confidence in loan applicants, lack of spirit in running successful business, less experience in business and high market competition constituted the factor III and accounts 17.75 per cent of the total variance. Two variables namely improper location of business and new product to the market were grouped together as factor IV and accounts 16.68 per cent of the total variance and next three variables such as lack of educational qualification, poor marketing arrangements for selling the products and Insufficient availability of raw material constituted the factor V and accounts 12.74 per cent of the total variance and finally one variable like non availability of skilled manpower constituted the factor VI and accounts 12.24 per cent of the total variance. Thus the factor analysis condensed and simplified 18 variables and grouped into 6 factors explaining 100 per cent of the variability of all the 18 variables.

Recovery of loans and advances from the borrowers by sample bankers
Table 5: Recovery of Loans and Advances from Borrowers

Response	Respondents (N=60)		
	Number	Percentage	Cumulative percentage
Excellent	12	20	20
Satisfactory	48	80	100

Source: Primary data

It was inferred from Table 5 that out of 60 respondents, 48 (80%) of them had a satisfactory level of recovery of funds and 12 respondents (20%) had an excellent rate of recovery of the credits granted to micro and small enterprises.

Reasons for non or low recovery of loans and advances
To identify the reasons for non or low rate of recovery of loans and advances from micro and small enterprises from bankers' point of view a weighted average analysis was carried out applying five point scale. Table 6 presents the varied reasons for non or low rate of recovery of loans and advances from micro and small enterprises.

Table 6: Reasons for Non or Low Rate of Recovery of Loans and Advances N=60

Reasons	No. of respondents					Total score	Mean score	Rank
	SA	A	N	DA	SDA			
Lack of advertising & poor marketing arrangements	2	34	24	-	-	218	3.633	III
Substandard quality of products		14	26	20	-	174	2.900	IX
Loopholes in recovery Acts/Laws	12	16	12	16	4	196	3.267	VII
Misuse/diversification of funds	16	42	2	-	-	254	4.233	I
Poor appraisal of project proposal	6	14	28	8	4	190	3.167	VIII
Lack of shrewdness to pay the dues of loans and advances	14	16	18	12	-	212	3.533	V
Poor financial background of the borrower	4	16	14	22	4	174	2.900	IX
Insufficient financial arrangements	-	6	22	16	16	138	2.300	X
Expecting subsidy/concessions from governments	6	32	16	6	-	218	3.633	III
Delay in settlement of bills to MSEs by large scale buyers	2	38	12	8	-	214	3.567	IV
Non application of advanced or updated technology	-	34	20	6	-	208	3.467	VI
High market competition	6	32	12	10	-	214	3.567	IV
Wilful default by the borrowers	8	26	26	-	-	222	3.700	II

Source: Primary data   SA-Strongly Agree (5 points); A-Agree (4 points); N-Neutral (3 points); DA-Disagree (2 points); SDA-Strongly disagree (1 point)

Table 6 expresses that the highest weighted average score was recorded for misuse of funds by the borrowers (4.233) followed by wilful default by the borrowers (3.700), expecting subsidy or concessions from governments and lack of advertisement and poor marketing arrangements for selling the products of micro and small enterprises (3.633) each.

Instead of using the funds effectively for their business, the enterprises divert the funds for personal purposes, thus resulting in paucity of funds in running their business.

CONCLUSION
It is concluded through the analysis that non disclosure of full information by the applicants, lack of infrastructural

facilities, lack of knowledge about managing the business and lack of technical viability of the projects are the major constraints felt by the bankers while lending to micro and small enterprises. Further misuse or diversifying the borrowed funds is the major reason for non or poor recovery of loans and advances from the borrowers.

SUGGESTIONS
The following are the suggestions.

- By widening relationships with MSE customers, rather than focusing on lending alone, banks will gradually build up their level of comfort with risks associated with micro and small enterprises.
- All scheduled commercial banks should strictly adhere to the rules and guidelines of the Reserve Bank of India and Government of India regarding credit delivery to micro and small enterprises sector. So that, credit disbursement can be maximized.
- Banks need not aim at simply achieving the targets for credit disbursement but economic and commercial viability of the project proposals should be ensured so that loans sanctioned shall not become non- performing assets.
- Banks can conduct meetings, fairs, workshops and seminars at least once in six months in the places where industries are clustered so that it will be more useful to the new as well as existing enterprises to popularise their loan products among MSEs.
- When bankers come to know that the fund lent was misused or diversified, strict actions need to be taken through fine or imprisonment.
- If possible banks can go for charging less rate of interest from micro enterprises to boost credit flow.
- A flexible approach to collateral will improve access to bank funding.

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