

# SME Lending in India: A Survey of Customers' Opinions

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## ABSTRACT

As a developing country, India places a premium on economic expansion and modernization. The growth and development of the Indian economy owe a great deal to the efforts of small-scale companies. Micro, small, and medium-sized companies (MSME) in India have consistently been the economy's most dynamic and eye-catching contributor. Small-scale enterprises have contributed significantly to the country's prosperity by creating a lot of well-paying jobs and fostering balanced growth in the regions they serve, all at a reasonable price. In addition to these benefits, there is the additional upside of encouraging new business owners to launch ventures, with the drive and enthusiasm to see their companies thrive and make an impact on the Indian economy. Those who value their independence yet want to work for themselves have the option of becoming entrepreneurs. Micro, small, and medium-sized enterprises (MSMEs) play a critical supporting role in the nation's economic and social development alongside larger sector enterprises. It makes a significant contribution to GDP and export earnings. Obtaining financing is a necessary and challenging process for any size corporation since money is the lifeblood and oxygen of every business, even small-scale companies. The government and financial institutions have implemented many schemes in recent decades to facilitate the acquisition of loans and funding by MSMEs. This research makes an attempt in that regard, and its results provide light on the extent to which that micro, small, and medium-sized enterprises (MSMEs) have towards government and other financial institutions' aid. Experts have offered a number of literature evaluations that lend credence to the study and its conclusions. Together with sensible recommendations for boosting the MSMEs' contentment.

Keywords : Mini and Small Enterprises, Tiny Businesses, Money, Growth

## INTRODUCTION

No matter its size, shape, or form, a company's finances are its lifeblood. It's the deciding element in the company's success or failure. Obtaining funding is also a vital phase that requires the company doing the acquiring to pay close attention to detail. Getting financing is a tedious and time-consuming procedure, especially in a developing country like India.

The abundance of skilled workers, the diversity of India's natural resources, and the reliability of its large-scale monetary features all combine to make India one of the most enticing ports for commercial and financing chances. The growth of each economic system can be traced back to two mainstays: stable institutions and reliable services. They might be enticing investors from across the globe to pour money and

resources into the country. By creating a wide array of goods and services (both tangible and intangible) and responding to and satisfying the needs of the general people, they are crucial to a country's socioeconomic development.

There has been a significant decline in the Indian economy during the last several decades. There has been a slowdown in financing and utilization trade, and many initiatives have been launched to get the economy back on track and headed in the path of progressive development. Upward trend in growth was expected to continue until 2020. The emergence of a worldwide pandemic like COVID-19 has hampered progress, and it may have a significant influence on the country's exports to the nations hit worst by the epidemic. Private consumption, government spending, and foreign commerce would all feel the effects and be affected. The country's financial stability has been severely

impacted more than others by the lockdowns imposed due to the epidemic and its aftermath.

The Indian economy relies heavily on its small and medium-sized businesses. It has long-lasting effects in terms of producing job possibilities for a bigger population with less investment, guaranteeing the viability of a wide range of other economic sectors. Small businesses are notable not just for their investment and employment levels, but also for their management style, pattern, and the personal and direct approach they take to business. In addition to providing jobs and cheap production costs, small-scale enterprises in rural and underdeveloped regions help level the playing field economically. The success of India's burgeoning small-scale industrial sector has been a boon to the country's emerging business owners. Since independence, the government and different small and large financial institutions, banks, have endeavored to foster the new class of entrepreneurs who have played a key part in

defining the economy of the country by lending a hand to small-scale companies.

Micro, small, and medium-sized enterprises (MSMEs) play a crucial role in the economies of developing countries because of their ability to generate new jobs. It is crucial that India's MSMEs contribute to the growth of the country's monetary system. In terms of raw statistics, India's small and medium-sized enterprises (SMEs) are responsible for hiring almost 10 million people every year, making them the country's second-largest employer and provider of non-discriminatory regional growth, after only agriculture. More than 90% of all industries in India are MSMEs, and these businesses are responsible for 45% of industrial production, 40% of exports, and 17% of GDP (Dahale et al., 2015).

Micro, small, and medium-sized enterprises (MSMEs) are often regarded as the foundation of economic growth and a driving force behind independent progress on a global scale. The industry has shown noteworthy ingenuity and resilience in the face of recent financial downturns and recessions, demonstrating both speed and resilience. When broken down by firm size, product variety, and technological advancement, India's smallest and medium-sized enterprises (SMEs) are very diverse. The industry caters to the needs of small businesses with limited resources, while also providing extensive support to people in rural and underdeveloped areas of the country. M&S Enterprises (M&Es) have played a crucial role in the country's overall economic development and routinely shown a substantial contribution to national income.

## **OBJECTIVES**

1. Assess the conceptual framework, advancement and development progression of MSMEs in India.
2. Validate the issues encountered and

future prospects associated with MSMEs in India.

3. Evaluate the financial support offered by government and financial institutions to MSMEs in India.
4. Understand the satisfaction and content level of MSMEs towards financial support offered by government and financial institutions in India.
5. Suggest recommendations and ideas for further development of MSMEs position in term of financial support in India.

## **REVIEW OF LITERATURE**

Small-scale industries are the roots for developing nations like India. They are the sources of explicit employment opportunities, advancement of entrepreneur abilities and removing regional imbalances. These advantages help the advancement and growth potential of developing nations. But these firms always suffer the hurdle of procuring finance. Some of them being high rates of interest, heavy paperwork to procure finance, lack of transparency for the MSMEs etc. The present section deals with the various expert opinions on the satisfaction levels of MSMEs for the loans offered by banks and financial institutions in India.

Subrahmanyam (2004) featured the effects of globalization and local amendments on small-scale industries by stressing on the fact that how much the small firms had encountered on grounds of development of units, employment, profits and exports. He also recommended that the spotlight must be diverted towards technology enhancement and mending the financial framework so that the small-scale industries can be efficient contributors to national revenue and employment opportunities.

Maumita Choudhury & Chandana Goswami (2019) studied the problems linked with corporate financing to MSMEs, comprehensive reviews of all the available literature from the period 2005 to 2016. The results showing the elements contributing in the lending process have been the rivalry amongst the lending institutions to grow the count of borrowers, lending customs followed by the lending institutions, shortage of data about the small-scale entrepreneurs who apply for loans and the organization features and organization size.

Mr. Abhijeet Biswas et al. (2018) endeavors to analyze the different elements that are responsible for the lending disparity in the MSMEs, the

analysis is actually based on raw data and it identifies that the information imbalance between the lender and borrower must be reduced in order to bring down the lending disparity.

Siddiqui (2018) Amid the initial budding phases of micro, small and medium firms require prompt and ample finance. MSMEs depend on different mediums of capital. Different credit raising issues encountered by the MSMEs were insufficient and delayed capital availability, defined data and financial support, ancillary security condition, limited working capital, and insistence on a lot of legal and paperwork for availing financial help from the banks and other financial institutions.

Ayyagari et al. (2014) and Quartey et al. (2017) analyzed the impact of the organizational factors such as the organizational size and age. Hence it is hypothetically proved that there exists a positive association among the features of the organization and the small-scale firms approach to availing capital from the financial institutions.

Sen and Salim (2016)'s research handled the significance of MSMEs in West Bengal. They inspected the performance with reference to count of units, investment, and job creation. The

research studied the existence of regional differences amidst districts of West Bengal in reference of MSME gadgets, funding, and employment. The research wound up with few recommendations for industrial masses with the government. Business clusters may assure the general facilities that might be helpful to reduce the running fee, growth of competitiveness, and expand the skills for the sector. Additionally, government become had to decorate economic support which could be strongly enhancing the improvement of country industry.

Joshi, (2011); Arun and Kamath (2015) pointed out that these are the three hurdles faced by MSMEs: easy entry to the market, finance, and loans. There is no structured procedure for the MSMEs, operating expenses are higher, the process of providing a loan is long and ultimately the loan distribution will be limited. Limited entry to the official medium of finances and no access

to complete information is considered other elements. The rate of interest on the investment is on the higher side as well as for the working capital. Most of the MSMEs have a dearth of clarity, and insufficient financial and organizational abilities.

Noorinasab, Seifabad, and Zarei (2016) Entrepreneur encounter issues such as ways to procure capital for start-ups and inadequate funds. Many entrepreneurs are not able to enter the external price range because of inadequate safety and credit score in the market. The manner of loan availing facility is time-ingesting. Other issues are lower income due to competition, financial statements aren't nicely maintained by means of entrepreneurs of MSMEs, insufficient ensures for raising loans, equity trouble in raising capital, and dependence on money creditors for loans that might be excessive price.

## **METHODOLOGY**

### **Research Design**

Present study is concerned with the MSME entrepreneurs in Tamilnadu, State. The study describes the entrepreneurs' awareness and satisfaction towards banking services and to analyze their opinion. Research design is a plan of action that guides the entire research in our Study Descriptive e Research Design has been adopted.

## **Sampling Design and Method**

The researcher has taken 784 as sample units of the present report and the data were amalgamated together from the proprietors of these units. Initially, the researcher obtained the list of total MSMEs in Tamilnadu from District industries Centre (DIC). Probability sampling was applied to select the sample. Simple random sampling has been used for the gathering

## **DATA ANALYSIS AND INTERPRETATION**

### **Kaiser Normalization and Bartlett Test**

Factors affecting Glass ceiling are narrated with the help of Exploratory Factor Analysis (EFA) for further in-depth analysis.

Before applying the factor analysis, the data validity of factor analysis is tested with the help of Kaiser-Meyer-Ohlin (KMO) measure of sampling adequacy and Bartlett's test of sphericity. The minimum acceptable KMO measure is more than 0.5, whereas, the level of significance in Chi-square test is at 5 per cent level.

### **Kaiser Normalisation and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.732
Bartlett's Test of Sphericity	Approximate Chi-Square	133.35
	Degrees of Freedom	13

	Significance	0.000
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Source: Primary Data

Results of Kaiser-Meyer-Olkin Measure of Sampling Adequacy shows the measure value of 0.732, the KMO value is more than 0.05. It indicates that all the respondents completely understands the questionnaire and perfectly responded to the scales associated. Bartlett's Test of Bartlett's Test of Sphericity is more chi-square value and the significance the analysis and the value is less than 0.5.

### Factors influencing the bank services

Factors	1	2
Easy approval of business plan	.645	.510
Suggestion towards the loan amount	.684	.770
Guidelines towards loan process	.515	.807
Positive words regarding business success	.769	.405
Bank charges and services	.700	.664
Time taken for loan sanction	.838	.447
Collateral free loan	.714	.433
Interest free loan	.733	.767
Document charges	.797	.654
References towards high beneficial scheme	.412	.665
High repayment period	.693	.025
Minimal loan procedure	.400	.016

Source: Primary Data

### Factors influencing the entrepreneur towards the bank services

Attributes		Factor loadings		
		Factor 1	Factor 2	Communality
F1	Easy approval of business plan	.645		.838

F2	Suggestion towards the loan amount	.684		.714
F3	Guidelines towards loan process	.515		.733
F4	Positive words regarding business success	.769		.838
F5	Bank charges and services	.700		.664
F6	Time taken for loan sanction	.838		.447
F7	Collateral free loan	.714		.519
F9	Interest free loan	.733		.619
F10	Document charges	.797		0.514
F11	References towards high beneficial scheme	.412		0.761
F12	High repayment period		.693	0.698
F8	Minimal loan procedure		.400	.016

Source: Primary Data

All the values of the factor analysis were represents their importance on the analysis. Time taken for loan sanction got the high level of importance than other factors. Most of the factors were correlated with Guidelines towards loan process and Minimal loan procedure

### **FINDINGS OF THE STUDY**

- The researcher has used 10 factors to identify the entrepreneur's satisfaction. The factors were Easy approval of business plan, Suggestion towards the loan

amount, Guidelines towards loan process, Positive words regarding business success, Bank charges and services, Time taken for loan sanction, Collateral free loan, Interest free loan, Document charges , References towards high beneficial scheme, High repayment period and minimal loan procedure

- Results of Kaiser-Meyer-Olkin Measure of Sampling Adequacy shows the measure value of 0.732, the KMO value is more than 0.05



- Most of the factors were correlated with Guidelines towards loan process and Minimal loan procedure

## **SUGGESTIONS**

1. The bank staff must change their attitude towards MSMEs while granting loans to small-scale firms.
2. Measures must be taken by the government towards implementing the rate of interest amicable for small-scale firms.
3. The length of paperwork must be reduced to avail the loans for MSMEs in India.
4. The MSMEs must be given a easy access to capital.
5. The bank should change the mindset of top management to extend finance to the MSME sector and educate credit officers with suitable publications to address MSME Groups.

## **CONCLUSION**

The research on MSME entrepreneur's level of satisfaction at banking offerings famous that customers are satisfied in the direction of promptness of offerings, typical efficiency of the financial institution and Friendliness and courtesy of the managers. Some regions the pleasure stage could be very poor. Suitable recommendations are also

provided to increase the satisfaction and utilization level in the ones regions. Hence, the findings and recommendations provided by using the studies will assist to make bigger the pleasure stage of customers. As nicely as to get better the great of the product and services supplied through the bankers.

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