



## Role of commercial banks in the development of MSME sector in India

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### Abstract

Micro, Small and Medium Enterprises (MSME) plays a dominant role in the generation of employment opportunities in a country. But these MSMEs are suffering from lack of financial resources. Among the sources of finance available to MSMEs the major source is loans from banks. Especially commercial banks are concentrating more on large scale and profitable industries that is why MSMEs are not in a position to get adequate loan from these banks. Central Government has recently announced that merging of syndicate bank with canara bank in the coming days. A case study of these two banks are taken into consideration to know the role of these banks in the development of MSME sector in the country. An attempt has been made to know the difference in lending by commercial banks towards MSME sector. T test is used to know the difference between Loan disbursed by canara bank and syndicate bank towards MSME sector. The difference in the average lending towards MSME sector between Canara Bank and Syndicate Bank found to be.

Significant. (5% level of significance) ( $P=0.000592$ ). Hypothesis  $H_0$  is rejected and  $H_1$  accepted that there is a significance difference in the Loan disbursed by Canara bank and Syndicate bank towards MSME sector. Canara bank contribution is comparatively more towards lending loan to MSMEs than Syndicate bank. They have to introduce some more schemes to MSME sector, to provide more benefits to new entrepreneurs in MSME sector to avoid taking loan from outside agencies.

**Keywords:** commercial banks, MSME, canara bank, Syndicate bank

### 1. Introduction

Micro, Small and Medium Enterprises (MSME) plays a dominant role in the generation of employment opportunities in a country. But these MSMEs are suffering from lack of financial resources. Among the various sources of finance available to MSME sector the major source is loans from banks. Especially commercial banks are concentrating more on large scale and profitable industries than MSME. That is why MSMEs are not in a position to get adequate loans from these banks. Government of India has taken some steps for the strengthening of banking sector. On these steps merging of major nationalized banks also one. Central Government has announced that merging of syndicate bank with canara bank in the coming days. In this manner a case study of these two banks are taken into consideration to know the role of these banks in the development of MSME sector in the country.

### Meaning of MSME

A small-scale enterprise or Micro, Small and Medium Enterprise (MSME) are a business that employs a small number of workers and does not have a high volume of sales. Such enterprises are generally privately owned and operated sole proprietorships, corporations or partnerships.

### Bank-Meaning

An organization where people and businesses can invest or borrow money, change it to foreign money, etc., or a building where these services are offered.

### 2. MSME Sector in India

Micro, Small and Medium Enterprises play a vital role for the growth of Indian economy by contributing 45 per cent of

the industrial output, 40 per cent of exports, 42 million in employment, create one million jobs every year and produces more than 8000 quality products for the Indian and international markets. The Government of India enacted the Micro, Small and Medium Enterprises Development Act 2006 to provide a policy framework for the development of the MSMEs. The Micro, Small and Medium Enterprises Development Act 2006 groups MSME firms into manufacturing enterprises and service enterprises. A manufacturing firm with investment in plant and machinery not exceeding Rs. 25 lakhs is considered a micro enterprise. Firms with investment in plant and machinery between Rs 25 lakhs and Rs 5 crores are considered a small enterprise, and medium enterprises are those where the investment is in the range of Rs. 5 crores to Rs 10 crores. In the service group, for investment in equipment of less than Rs 10 lakhs, the firm would be in the micro category, if it is between Rs 10 lakhs to Rs 2 crores, then it would fall in the small enterprise category; if investment in equipment is in the range of Rs 2 crores to Rs 5 crores, then it would fall in the medium enterprise category. The Indian market is growing rapidly and Indian industry is making remarkable progress in various Industries like Manufacturing, Precision Engineering, Food Processing, Pharmaceuticals, Textile & Garments, Retail, IT, Agro and Service sectors.

**However, in India, Small business is defined by Government, as consisting of the following four types of businesses**

1. **Small Scale Industries:** The investment in plant and machinery is up to Rs. 1 crore.
2. **Ancillary Industrial Undertakings:** The investment in plant and machinery not to exceed Rs.1crore; and the

undertaking must sell not less than 50% of its output to other industrial undertakings.

3. **Export-Oriented Units:** The investment in plant and machinery is up to Rs. 5 crores; and the unit must export at least 30% of its output by the end of three years from the commencement of production.
4. **Tiny Units:** The investment in plant and machinery is up-to Rs.25 lakhs.

### 3. Review of Literature

Dr. Jayanta Gogoi, (2013) <sup>[1]</sup> reviewed that Micro, small and Medium Enterprises (MSMEs) have emerged as a vibrant and dynamic component of Indian economy by virtue of their significant contribution to GDP, Industrial Production and exports. Being as a financial institution commercial bank plays a vital role for development of MSMEs in Assam. The state has vast potential for setting up of number of enterprises, based on its own resources, like-agriculture, horticulture, forest, jute, rubber, tea, medicinal plants, cane and bamboo, oil, gas, coal etc. The study concentrated on the role of commercial banks for development of MSME in Jorhat district.

Santosh Kumar Munda, Sukhamaya Swain (2014) <sup>[2]</sup> reviewed that Micro, small or medium business owners are generally first time entrepreneurs with very little capital or without capital, need not only technical, marketing and managerial support but also require the much needed seed capital to start the business. Many MSME units also need additional capital for technology up gradation, capacity expansion growth, marketing and for imports and exports. In Odisha also banks have been providing all forms of financial support to these MSME entrepreneurs, in turn this MSME sector have been able to add value to the GDP and finally concluded that in the process banks have made a mark for themselves by way of being the second highest employment generation sector in the state.

Prof. Arvind Kumar, Dr. Priyanka Sharma (2016) <sup>[3]</sup> reviewed that in the development of MSME sector, role played by credit lending institutions is remarkable. Indian Financial Institutions and the Government has a crucial contribution in development and promotion of MSME sector. The paper closely analysed the growth and development of the Indian MSMEs from opening of the economy in last few years. Another part looks into the present scenario role of financial institutions in overall development of MSMEs across the nation. Paper also aimed to evaluate opportunities and challenges in the sector for raising funds through financial institutions which should be considered by policy makers for better results.

Varsha Gupta, Dr J S Saini, Dr Sanjeev Chaddha, (2018) <sup>[4]</sup> revealed that the study focused on analyzing contribution of commercial banks and assessing the factors affecting bankers risk perception towards financing MSMEs in state of Himachal Pradesh. Study basically used cross tabulation, T test and ANOVA to find the difference in lending pattern and risk perception of Public Sector Bank and Other Commercial Banks (Pvt. Sector Banks and Rural Regional Banks). The Study concluded that there is no significant difference in risk perception of public sector banks and non-public sector banks, as  $p > 0.05$  i.e.  $0.97$ ,  $t(28) = 0.157$ ,  $p = 0.876$ . Further there is significant difference in lending pattern of banks to MSMEs and public sector banks contribute more towards financing MSMEs in the state of Himachal Pradesh.

### Research Gap

The review of literature depicts that a lot of research have been undertaken regarding the lending of Loans by Commercial banks to MSME sector in different states in India. But a comparison made between two commercial banks in the lending of loans to MSME sector is very less. Through this present study, an attempt has been made to fill these gaps and offer suggestions to the commercial banks regarding lending loans towards MSME sector.

### 4. Objectives of the study

1. To know the various types of loans provided by commercial banks to MSME sector.
2. To study the difference between Loan disbursed by Canara bank and Syndicate bank towards MSME sector.

### 5. Hypothesis of the study

$H_0$ = There is no significance difference in the amount of Loan disbursed by canara bank and syndicate bank towards MSME sector.

$H_1$ = There is a significance difference in the amount of Loan disbursed by canara bank and syndicate bank towards MSME sector.

### 6. Methodology

A case study of two public sector banks i.e Canara bank and Syndicate bank is taken into consideration for the study purpose. Study has covered 7 years data regarding the loan amount disbursed to MSMEs by Canara bank and Syndicate bank from the year 2012-13 to 2018-19. T test is used to know the difference between Loan disbursed by canara bank and syndicate bank towards MSME sector.

### 7. Types of MSME loans in India

The MUDRA (Micro Units Development and Refinance Agency Ltd) Yojana launched and offers loans for up to Rs. 10 lakh at low interest rates. MUDRA will cater to over 5 crore self-employed persons. The Pradhan Mantri Mudra Yojana, which currently has around Rs. 20,000 crore at its disposal, is a subsidiary of SIDBI.

Some of the different kinds of business loans offered in India are the following:

- **Government:** As mentioned above, government has mooted special schemes to boost the capacity of small business units across the country. Loans are provided to the elderly, minorities, factory equipment or office expenditures among many others.
- **Micro loans:** The maximum repayment term is six years. Micro loans are offered provided there is a robust business plan and a profitable venture.
- **Business organizations:** Large business conglomerates can offer finance assistance to small business units provided the small business show potential for growth and are lucrative in terms of turnover to repay the loan amount. Some examples include franchise loans and export financing.
- **Personal loans:** Several banks offer personal loans anywhere from Rs. 10 lakhs to Rs 25 lakh which are typically unsecured at 18% to 24%. The loans are repaid through instalments.
- **Professional loans:** These are unsecured loans provided to self-employed professionals such as chartered accountants, company secretary, doctors and

so forth. It does not encompass manufacturing and processing units. The loan amount varies from Rs. 25,000 to Rs. 25 lakh depending on the financial status of the applicant, loan tenure and repayment capacity at a rate of interest which depends on the prime lending rate.

- **Project Finance:** Provided for new long-term infrastructure or industrial projects with flexible repayment terms on the basis of the project assessment report.
- **Equipment Finance:** Provided to buy new equipment or lease equipment for business units.
- **Working Capital Loans:** Provided for daily business needs for smooth functioning of the units.
- **Lease rental:** Provides term loan against lease contracts to facilitate business requirements.
- **Financial advisory:** Provided for assistance by financial experts.
- **Insurance:** Provides finance for insurance solutions for better safety.
- **Trade loans:** Provided to traders for starting a new business enterprise or expand the current business unit. The loan is repaid through Equated Monthly Installments or EMIs. The rate of interest is based on the prime lending rate (fixed and fluctuating).

**Several initiatives taken care of by the Public sector Banks**

- The MSME sector’s demands comprehensively taken care of by the Public sector Banks through several initiatives such as
  1. Single Window dispensation.
  2. Quick decision with least Turnaround Time through specially constituted MSME Cells, and above all Better service.
  3. Cluster-based Schemes are also on the list of the Bank’s initiatives.
  4. Provision of timely and adequate credit to the MSMEs.
  5. Encouraging Technology Up gradation, for better quality and competitiveness of their product(s), and proactively detecting sick and viable units in time so as to nurse them back to health through appropriate re-structuring.
  6. Financing of Clusters with adequate and concessional Bank finance on liberal terms in several pockets for specified activities concentrated in these pockets, which would result in reducing transaction cost and greater economies of scale.

**9. Data Analysis and Interpretation**

**Table 1:** Amount of loan disbursed to MSME Sector.

Years	Canara Bank		Syndicate Bank	
	Amount of loans & Advances (Rs in Crores)	Growth in Percentage	Amount of loans & Advances (Rs in Crores)	Growth in Percentage
2012-13	37,016	6.08	16,428	11.48
2013-14	50,040	35.18	19,800	20.52
2014-15	60,604	21.11	24,665	24.57
2015-16	66,689	10.04	27,677	12.21
2016-17	74,302	11.42	26,981	-2.51
2017-18	82,098	10.49	27,306	1.20
2018-19	85,168	3.74	25,825	-5.42

**Source:** Annual reports of canara bank and syndicate bank

**8. Case Study**

**a) Canara Bank – A Brief Profile**

Canara Bank was founded by Shri Ammembal Subba Rao Pai, a great visionary and philanthropist, in July 1906, at Mangalore, in Karnataka. Growth of Canara Bank was phenomenal, especially after nationalization in the year 1969. Canara Bank has several firsts to its credit. These include: Launching of Inter-City ATM Network, Obtaining ISO Certification for a Branch, Articulation of ‘Good Banking’ – Bank’s Citizen Charter, Commissioning of Exclusive Mahila Banking Branch, Launching of Exclusive Subsidiary for IT Consultancy, Issuing credit card for farmers, Providing Agricultural Consultancy Services.

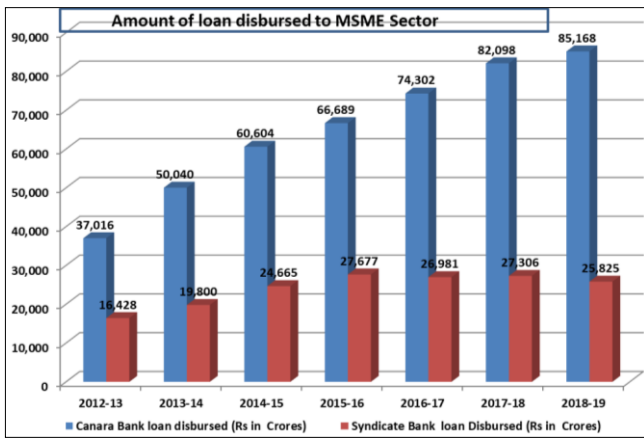
As at September 2017, the Bank has further expanded its domestic presence, with 6111 branches spread across all geographical segments.

**Industrial Information and Guidance Service:** The bank has set up an industrial information and guidance service to provide information and advice to its clients on matters such as, scope for establishments of industries, technical and marketing facilities, taxation, export and imports, accounting and management and to prepare project reports on proposed industries <sup>[5]</sup>.

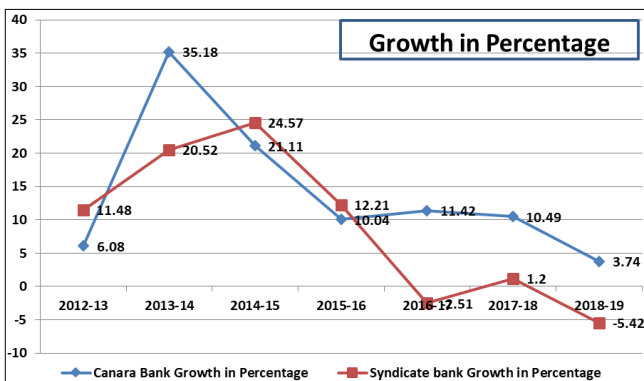
**b) Syndicate bank- A Brief Profile**

Syndicate Bank was established in 1925 in Udipi, the above of Lord Krishna in Coastal Karnataka with a capital of Rs 8,000/- by three visionaries – Sri Upendra Ananth Pai, a businessman, Sri Vaman Kudva, an engineer and Dr T.M.A Pai, a physician- who shared a strong commitment to social welfare. Their objective was primarily to extend financial assistance to the local weavers who were crippled by a crisis in the handloom industry through mobilizing small savings from the community. The Bank collected as low as 2 annas daily at the doorsteps of the depositors through its agents under its pigmy deposit scheme started in 1928.

The Bank is well-equipped to meet the challenges of the 21<sup>st</sup> century in the areas of information technology, knowledge and competition, A comprehensive IT plan is in place and the skills and knowledge of the bank’s personnel are being upgraded through a variety of training programmes to promote customer delight in every sphere of its activity. The bank has customized its products and services keeping in view the requirement of different strata of the society. All the bank branches are covered under CBS platform, Bank is having 4032 branches including London Branch and 4522 ATMs across the country as on 31.03.2019 <sup>[6]</sup>.



**Fig 1:** Amount of loans disbursed to MSME Sector by Canara bank and Syndicate Bank.



**Fig 2:** Growth rate of loan disbursement to MSME Sector by Canara bank and Syndicate Bank.

**Analysis**

The total amount of loan disbursed by Canara bank was Rs37,016 crores in the year 2012-13 and it is showing an increasing trend upto Rs 85,168 crores in the year 2018-19. The growth rate is more in the year 2013-14 (35.18%) and it is less in the year 2018-19 (3.74%). The total amount of loan disbursed to MSME sector by Syndicate Bank in the year 2012-13 was Rs 16,428 crores and it is increased to Rs 27,677 crores in the year 2015-16. But later years loan disbursements are showing fluctuating trend. The growth rate of Syndicate bank is more in the year 2014-15 (24.57%) and it is least in the year 2018-19 (-5.42%).

**Interpretation**

The data subjected to statistical test reveals that the difference in the average lending towards MSME sector between Canara Bank and Syndicate Bank found to be Significant. (5% level of significance) (P=0.000592). Hence, Hypothesis H<sub>0</sub> is rejected and H<sub>1</sub> accepted (p<0.05) that there is a significance difference in the Loan disbursed by canara bank and syndicate bank towards MSME sector.

**10. Findings and Suggestions**

- In spite of so many initiatives taken by canara bank, it is suggested that it has to increase the amount of loan to MSME sector, because growth of lending to MSME sector is reduced in the year 2017-18 and 2018-19.
- In case of syndicate bank, compared to canara bank the loan disbursement is very less in all the years. it is suggested that it has to increase the amount of loan to MSME sector. The growth of lending to MSME sector

is negative in the year 2016-17 and 2017-18, it is suggested that the bank has to show positive growth in the lending towards MSME sector.

- Canara Bank and Syndicate banks have to introduce some more schemes to MSME sector to provide more benefits to new entrepreneurs in MSME sector to avoid taking loan from outside agencies.

**11. Conclusion**

Public sector banks have to concentrate more on lending to MSMEs. Otherwise MSME sector will suffer from shortage of money. In this manner, Canara bank contribution is comparatively more towards lending loan to MSMEs than Syndicate bank. The role of Commercial banks should be increased further in lending to MSME sector than other institutions.

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