

CHAPTER 9

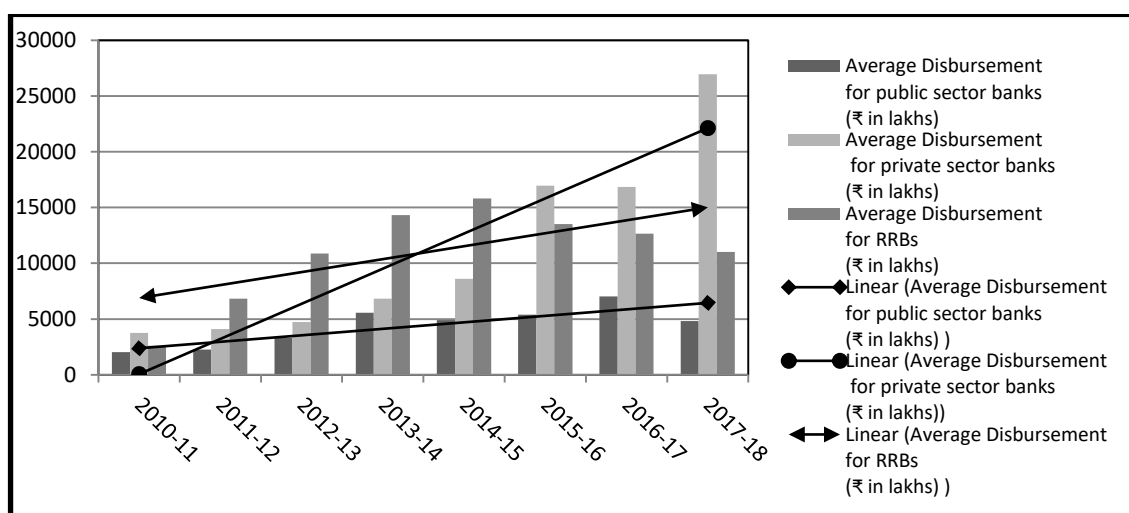
FINDINGS AND CONCLUSION

This chapter presents the key findings of this study and puts forward a few suggestions for Ministry of MSMEs, banks and DICs.

9.1 FINDINGS OF THE STUDY

9.1.1 Commercial banks' contribution towards financing MSMEs in Assam

(i) Public sector banks in Assam and pan India have a higher number of branch networks when compared to their private or RRB counterparts. As per SLBC data (Branch Network Report Manager New, 2018) There were 1472 branches of public sector banks, 235 branches of private banks and 473 branches of RRBs in Assam as on 2017-18 (excluding those banks which have not been included in Chapter 5). However, the findings of Chapter 5 (Table 5.7) suggest that private banks and RRBs have surpassed public sector banks by a huge margin in financing the MSMEs. For the year 2017-18, if average branch disbursement of credit to MSME sector is calculated, the amount disbursed to MSME sector is ₹252 lakhs for public sector banks, ₹1,254 lakhs for private sector banks and ₹161 lakhs for RRBs.



Source: Table 5.7

Figure 9.1 Bar graph showing comparative disbursement to MSME sector by public, private and RRBs under Annual Credit Plan.

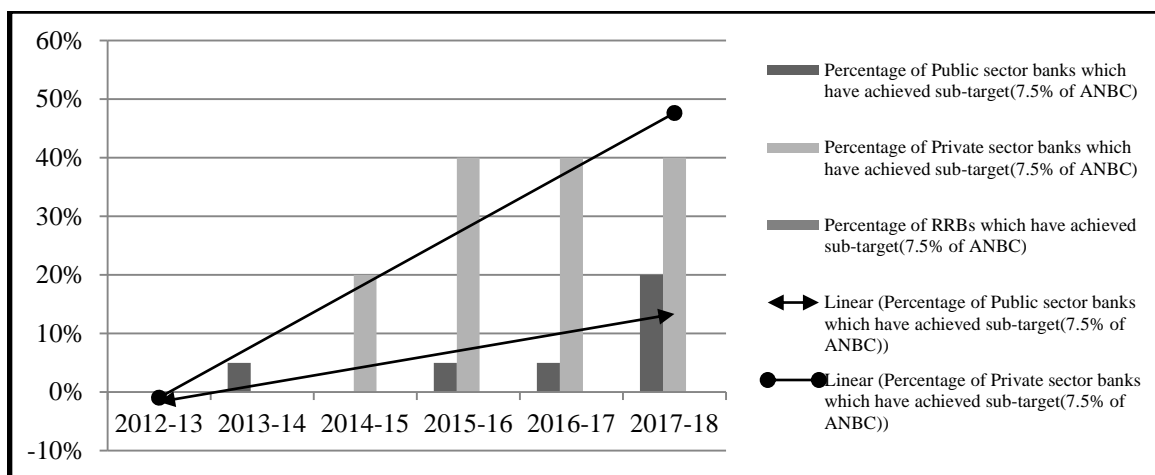
As seen in Figure 9.1, average disbursement of credit to MSMEs under the Annual Credit Plan is increasing for all banks over the years. But only private sector banks seem

to have increased at a steep year-over-year growth rate compared to public sector and regional rural banks.

This finding is in contrast with studies that have found that public sector banks have a higher contribution in rural areas (Kumar et al., 2016). Since rural areas have lower density of private banks as compared to urban areas, it is possible that public sector banks have a higher reach in rural areas. It is also found that only private banks have been able to reasonably achieve the targets and perform significantly better when compared to public sector banks and RRBs (Table 5.8). It was further observed that the overall average proportion of MSME credit to total credit for public banks ranged from 2.15% to 8.73%, from 3.37% to 14% for private banks and 2.09% to 3.27% for RRBs during the period 2012-18 (Table 5.4).

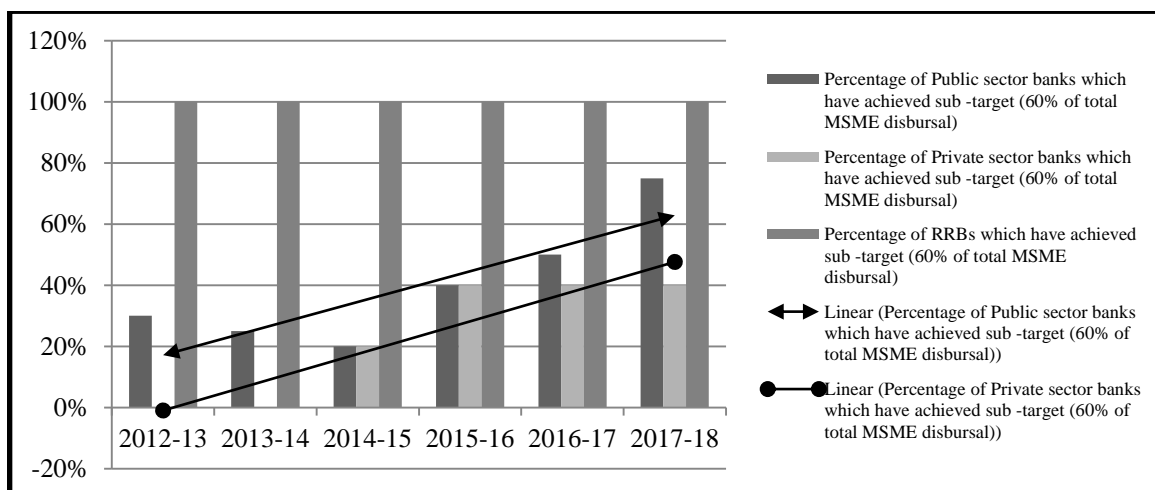
(ii) Banks have been prescribed credit directives by RBI towards MSME sector which says that “advances to Micro and Small Enterprises (MSE) sector shall be reckoned in computing achievement under the overall Priority Sector target of 40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. RBI has further advised that 7.5% of ANBC needs to go towards micro enterprises. Another requirement is that 60% of advances to MSME sector must go to micro enterprises”.

However, it is found that public sector, private sector and RRBs have mostly failed in achieving the target of 7.5% of ANBC towards micro enterprises (Table 5.5) in the state of Assam. However from Figure 9.2 and 9.3, it is evident that contribution of private sector banks is comparatively higher. Though the target of 60% of MSME credit to micro sector has been improving for public sector and RRBs over the years, the proportion is comparatively low for private sector banks (Table 5.5). It implies that the private sector banks have neglected the micro enterprises within the MSME sector.



Source: Table 5.5

Figure 9.2 Bar graph showing percentages of banks (public, private and RRB) which have achieved sub-target of lending 7.5% of ANBC to Micro sector



Source: Table 5.5

Figure 9.3 Bar graph showing percentages of banks (public, private and RRB) which have achieved sub-target of lending 60% of MSE credit to Micro sector

(iii) When compared with pan India level it has been found that post 2013, proportion of MSME credit to total credit by banks in Assam has grown higher than that of MSME credit to total credit by banks in aggregate across India. This indicates that banking sector in Assam has contributed higher towards MSME sector as a proportion of total credit disbursed, when compared to all India level after 2013. The year-on-year growth of both credit to MSME sector and aggregate credit pan India had declined post 2013, as an outcome of the economic slowdown of 2012. During 2011-12, NEDFi (North Eastern Development Finance Corporation Ltd.), a Public Limited Company aimed to promote MSME sector, had adopted a host of strategies such as capacity building, market linkages, upgrading and improvising various loan products etc., to promote the MSME sector. During the same period the quantum of PMEGP loans in Assam had also picked

up pace exponentially. However, the absolute proportion of MSME credit by banks in Assam to MSME credit by banks in India still remained very low ranging from 0.45% to 1.45% (Table 5.9).

9.1.2 Constraints experienced by MSMEs of Assam in acquiring finance from banks.

(i) The difficulty factors which were identified to be dominant in obtaining finance from bank by MSMEs are details demanded in the application procedure, unreasonably high collateral security requirements, insufficient promotional drives inviting MSMEs, negative overall attitude towards MSMEs and unreasonably high time gap between submission and sanction. Overall, attitude of banks' towards MSMEs has scored high on the difficulty level. Studies in similar lines have asserted the same (Patnaik et al., 2016, Mandala et al. 2012).

(ii) The demographic, financial and borrowing characteristics that seem to have significant influence over difficulty experienced by MSMEs are gender, age of borrower, type of unit, age of unit, registration status (with DIC), capital invested, annual income, amount of loan applied and type of scheme availed.

- Male borrowers were found to have experienced more difficulty with regard to documentation, attitude, post sanction and terms and policies while obtaining loan from banks (Table 6.2). This result is in contrast with other studies across different countries that have found that women usually face more difficulty when compared to men (Hoque & Itohara, 2009; Chowdhury, Yeasmin & Ahmed, 2018). In India there are numerous schemes directed towards female borrowers, particularly in microfinance sector, with the aim of women empowerment. There is a possibility that due to the outreach of schemes the difficulty faced by female borrower is lower compared to male borrowers.
- Comparatively older borrowers (age more than 50 years) faced higher difficulty with documentation and sanction process (Table 6.3).
- Medium units faced more difficulty with documentation and sanction process, while small units experienced more difficulty with application, attitude and support services (Table 6.5). It was expected that micro units would face more difficulty in obtaining finance but the results are contrary. The expansion of microfinance

programmes through bank linkages which mainly caters to micro segment of MSME sector has possibly subdued the difficulties of micro sector.

- Businesses which were 6-10 years old faced highest difficulties while businesses up to 5 years old faced the least difficulty with application (Table 6.8). Some major government schemes have been introduced specially for new enterprises (viz. SVAYEM and PMEGP). Such schemes may have eased difficulties for the new MSMEs.
- Unregistered units experienced higher difficulties with application, documentation, sanction, attitude, support service and terms and policies (Table 6.9).
- MSMEs with lower investments in capital (micro units), experienced lesser difficulty compared to units with higher investments (Table 6.10). The reason could be due to growth in bank linkages with microfinance institutions and other micro unit centric schemes by the government, which required less documentation, thereby easing their borrowing experience.
- MSMEs with a higher annual income (particularly between ₹50,00,000 to ₹1,00,00,000) faced the highest difficulties with application, documentation, attitude and terms and policies (Table 6.11). These are small and medium enterprises that do not enjoy the benefits associated with micro unit centric schemes of the government. They are dependent on banks for their fund requirement. As evident from Appendix 10, it can be seen that documentation and application process is lengthy and cumbersome for such borrowers, thus increasing the difficulty experienced.
- However, in contrast it was found that the highest difficulty was experienced by borrowers who applied for a loan amount of ‘₹30,00,000 to ₹50,00,000’ (Table 6.12). Based on Trans Union CIBIL’s classification of MSME loan size published in MSME Pulse report, a loan amount of ‘₹30,00,000 to ₹50,00,000’ is classified as a ‘micro loan’ (MSME PULSE, 2018). It can be concluded that higher difficulty is faced by borrowers who apply for such micro loans. This is irrespective of the firm size.
- Borrowers under PMMY scheme faced more difficulty in terms of attitude, support service, staff support, and terms and conditions, those who borrowed independent of any scheme faced highest difficulty with sanction, documentation and application. The list of documentary requirements for borrowers independent of

any scheme and borrowers with PMMY scheme is attached in Appendix 10 which shows that PMMY borrowers had slightly less documentary requirements compared to the former.

(iii) MSMEs do not borrow from banks due to lack of awareness, fear of inability to repay in time, high documentary requirements, perceived high rate of interest charged by banks or because they have access to an alternate source of finance (Figure 6.17). They do not approach banks even after acknowledging that borrowing from banks can help the business improve (Figure 6.14). Some dominant reasons behind MSMEs getting rejected by banks for loans are lack of adequate collateral and non-feasibility of project, although in many cases the borrowers were not provided with a clear reason for rejection (Figure 6.16). Even though a host of schemes for MSMEs are available through banks that have relaxations with repayment, interest rate, etc. the aforementioned factors remain as major impediments to borrowing from banks.

(iv) Unregistered units were found to have experienced more difficulties in their borrowing experience. However, though the trend of registration is growing on a yearly basis but the proportion of registered units in Assam to registered units across India is very negligible at less than 2% during 2007-2018 (Table 7.3). After the launch of online and simplified single page registration through Udyog Aadhaar in 2015, the pace of registration has picked up in the country. However that out of total 79,52,491 registrations through the portal from 2015 till 2019, only 11,913 registrations were from the state of Assam, accounting for approximately only 0.15% (Enterprises with Udyog Aadhaar Number, 2019). The state wise registration status is affixed in Appendix 12. As on 1st July, 2020, Udyam portal has been launched for MSME registration replacing Udyog Aadhar and EM II. Udyog Aadhar and EM II however shall remain valid till 31st March, 2021. From 1st April 2021, MSMEs registering using Udyam portal shall have to compulsorily report GST registration number.

Unregistered borrowers in Assam were primarily either unaware of benefits from DIC registration or were of the perception that getting registered meant too many documentary requirements or did not feel the requirement to get registered (Table 7.9).

(v) It was found that the average amount of loan applied and sanctioned were significantly different (Table 7.4). Banks use their own evaluation techniques and estimate an amount that can be disbursed to the borrower. Registering with DIC was

found to marginally influence the borrowers' satisfaction with the amount sanctioned by banks in the districts of Nagaon and Dibrugarh in Assam. However, there was no such influence observed in the district of Kamrup in Assam (Table 7.6 and Table 7.7).

(vi) Whether MSMEs are registered with DIC or not has been found to influence difficulty experienced by borrowers.

- Education level of borrowers have significant interaction effect over how registration status influences difficulty experienced by borrowers with application process while borrowing from bank (Table 7.8). With the exception of borrowers with a postgraduate qualification, all other unregistered borrowers faced higher difficulty in application process when compared to registered borrowers (Figure 7.5).
- Type of unit has significant interaction effect over influence of registration status over difficulty with application, attitude and support service while borrowing from bank (Table 7.9). All unregistered units faced comparatively more difficulties in terms of attitude and support service from the bank in comparison to registered units, although in case of micro units the differences in average difficulty faced was comparatively lower (Figure 7.6).

9.1.3 Obstacles faced by banks in financing MSMEs in Assam.

(i) Dominant problem encountered by banks while lending to MSMEs are new and unfamiliar customers (perceived as riskier due to information asymmetry), high average cost on loans made to MSMEs, hassles with repayment, difficult to recover a loan from MSME in case of default and scarcity of adequately trained manpower to handle MSME clients.

(ii) Co-operative banks faced highest difficulty from MSME borrowers that were referred by DIC (Table 8.6).

(iii) Important factors that are considered by banks in sanctioning loans to MSME borrowers are proper documents, proper financial records, third party guarantor, 'long and close relationship with the lending bank', 'good social interaction/relationship with loan officer', reference by DIC, good quality business project/plan, size of the unit, size of loan requests, age of the unit, NPAs associated with the sector, borrower pledging more collateral compared to other applicants and credit score as calculated by the bank.

(iv) The scores assigned by banks to the above factors and the perceived difficulty experienced in lending to MSME sector were compared. It was seen that in 66% of the cases average factor scores were higher than perceived average difficulties (Table 8.8). It implies that banks' requirements considered in sanction of MSME loan were much higher compared to perceived difficulties associated with the sector.

(v) MSME sector is perceived by bankers as an important sector for economic growth of the country and is believed to have good creditworthiness reputation. However, bankers also asserted that government policies for MSME sector were the main driver behind investing in this sector. Only a handful felt that investment in MSME sector could counter increased competition from rival banks (Figure 8.2-8.6).

(vi) Banks with which MSMEs experienced comparatively less difficulty in borrowing, give more importance to a reference of some influential person and risk ratings by third party agencies (Table 8.10). This implies that banks provide better service when borrowers have a reference of an influential person or a credit rating by an agency.

(vii) Banks are also facing manpower shortage to handle all the schemes that are being introduced by the government. There is lack of adequate support from the government to implement the PMEGP scheme. The scheme policies for capital subsidy schemes were perceived to be inappropriate by banks (Table 8.3).

9.2 SUGGESTIONS

The Government of India has from time to time taken several initiatives and measures to encourage MSMEs. However, due to limited reach and data availability, the sector still remains vulnerable and all round development still remains a challenge. The study has reached some findings after elaborate research on the area. Based on the findings certain suggestions may be made which may address the problem of MSME financing to an extent in the state of Assam, however the suggestions may also be implemented in other parts of the country after appropriate deliberations. Some suggestions based on the current study are as follows:

(i) Credit directives have been prescribed by the Reserve Bank of India in lending towards MSME sector in India. Similar directives exist in many countries across the world. In Indonesia banks are encouraged to have at least 20% of total lending towards

MSME sector (Arsjah et al., 2010). However, it is observed that banks in Assam, especially public sector banks, have been struggling and in effect, failed to accomplish credit directives over the years. The negligence is magnified in case of the micro units within the MSME sector. To address this issue and curtail the over dependence of MSME financing on banks, the role of micro credit institutions and other non-banking financial institutions can be further augmented by increasing their capital base. Major schemes, especially for micro enterprises, can also be implemented through institutions other than commercial banks, so as to deflect some strain from banks. Such suggestions have been made in studies across other the world (Shen, Xu & Bai, 2009). Smaller sized banks have the advantage of extracting more soft information from borrowers (Berger, Miller, Rajan & Stein, 2002; Petersen, 2004 (as cited in Grunert and Nordent, 2011)). SIDBI has been playing a major role in financing of MSMEs since 1990 and with the launch of small finance banks like North East Small Finance Bank in 2019 and RGVN (Northeast) Microfinance Ltd. in 2017, it is anticipated that the credit gap for micro sector can be addressed to some extent.

(ii) Information asymmetry is a major issue hampering the bank-MSME relationship. A credit rating, in theory, addresses the information asymmetry between the MSME borrower and the lender. However, adoption of ratings continue to be low and most MSMEs being exempted from GST, are clear of the tax network and do not figure in the public domain. An online portal called MSME data bank has been launched by the Ministry of MSME where MSMEs can log in and update information about the enterprise. After April 2021, all registered MSMEs shall have to compulsorily report GST number to Udyam portal. However, unregistered MSMEs shall continue to remain out of the radar. Out of close to 2 crore registered units, only 1,61,181 had registered in the portal till August 2019. A one stop online portal with information about all available schemes and related information such as tax exemption etc. will encourage more MSMEs to come into the fray. The portal can further be augmented by current and past bank borrowing details of MSMEs. It will very beneficial if a unique ID containing credit rating information for each MSME is linked with the online portal, particularly in Northeast India. With a common unique ID it will be easier to find out financial information of a borrower. This could address the information asymmetry problem to an extent.

(iii) Having a registration certificate entitles an MSME for numerous benefits. Some of the direct incentives provided by the Government as listed by RBI are as follows: “collateral free loans from banks, ease of getting licenses, approvals and registrations, reservation policies to manufacturing / production sector, special consideration on international trade fairs, octroi benefits, waiver of stamp duty and registration fees, exemption under direct tax laws, bar code registration subsidy, subsidy on NSIC¹⁸ performance and credit ratings, eligibility for IPS subsidy, counter guarantee from Government of India through Credit Guarantee Schemes (CGS), protection against delay in payment, reduction in rate of interest from banks, 15% Credit Linked Capital Subsidy Scheme (CLCSS) subsidy, concession in electricity bills, reimbursement of International Organization for Standardization (ISO) Certification, excise exemption, preference in procuring from Government, 15% weightage in price preference, 1% exemption on interest rate on overdraft and 50% subsidy for patent registration”. Registration with DIC is found to have eased borrowing experience for MSMEs, as discussed earlier.

In spite of these bountiful benefits the rate of registration still remains very low in the state of Assam (MSME Annual Reports, Bohra, 2017). The drivers and inhibitors for MSME registration has been highlighted in Table 7.2. Many unregistered MSMEs are unaware of the benefits that registration provides. Alamelugeeta (2015) in their research paper have emphasized the same. The inhibiting factors behind registration must be addressed. Therefore, Ministry of MSMEs must go for more effective promotional strategies that can raise awareness especially in rural areas. Some areas where Ministry of MSMEs can effectively promote benefits of registration are banks, expos, exhibitions and print and visual media such as local news channels, local newspapers, local magazines etc. to gain a wider reach. Another factor behind lack of will to register is the lack of trust in the formal financial system of the country. The MSMEs must be ensured full security and support which will encourage them to register. Bohra (2017) further suggested that DIC may publish a periodical handbook containing comprehensive information on various schemes and financing options available to MSMEs in Assam. The handbook may be made available at a nominal price. Such an initiative shall definitely address the problem of lack of awareness on schemes available for MSMEs.

¹⁸ National Small Industries Corporation Limited is a Mini Ratna Public Sector Unit established by the Government of India in 1955 which falls under Ministry of Micro, Small & Medium Enterprises of India.

(iv) National Small Industries Corporation Limited (NSIC) has entered into a Memorandum of Understanding with various 'Nationalized' and 'Private Sector Banks' in order to facilitate the MSMEs in accessing credit support from the banks. NSIC assists MSMEs with documentation for submitting the proposals to the banks and also does the follow up with the banks. These supports are provided by NSIC without any cost to those MSMEs which are registered with NSIC in India.

However for all practical purposes, registration with NSIC is not accepted by most of the organizations. MSMEs are required to register separately with different organization for various purposes which is a waste of time and resource for MSMEs. It is suggested that an electronic single point registration system for MSMEs be maintained. It is also suggested that DIC be appointed as the nodal agency for all monitoring of MSME registration because of its widespread reach and resources.

(v) The role of DIC in easing the bank-MSME relationship conundrum is very potential (Muthulaksmi, 2015). DIC has the potential to play a greater intermediary role between banks and MSMEs where they could rate the credibility of MSME for getting the loan. This will save a lot of time and manpower on the part of banks. The role and function of DICs must be amplified and requisite infrastructure and resources provided.

However, it was found that the MSME borrowers that were referred by DIC under the PMEGP scheme to banks faced rejection: 63.21% in 2016-17, 76.43% in 2017-18 and 78.26% in 2018-19 (PMEGP e-portal). The DIC officials follow a traditional rule of thumb technique in accepting or rejecting proposals to be forwarded to banks (Suriyan, 2015; Alagar, 2015). It is particularly challenging to assess the risk of MSMEs. A credit rating by a third party agency is expected to ease difficulties for MSMEs in borrowing from banks. A 'Performance & Credit Rating scheme' has been introduced by the Government, specifically for MSMEs, with subsidy on the rating fee of up to 75% for units with annual turnover of up to 50 lakhs. 'National Small Industries Corporation (NSIC)' is the nodal agency for the 'Performance & Credit Rating Scheme' (Performance and credit rating schemes for MSMEs, India Filings). Ministry of MSMEs must encourage MSMEs to avail the rating scheme to improve the acceptance rate.

(vi) Problem with collateral security for MSMEs has been affirmed by the current study implying that not all MSME have access to collateral free loans. It is suggested that banks use alternatives like 'group guarantees, bank or financial statements, tax records,

standardized scoring techniques' to evaluate creditworthiness of MSME borrowers. Heavily relying on collateral security closes the door to many potential MSME borrowers.

The government is providing a number of collateral free loans such as PMMY, PMEGP, and a host of schemes under an umbrella of Ministries that can be availed by MSMEs. Banks must ensure that applicants for loan are made aware of collateral free schemes so that the fear of collateral among MSMEs can be disposed with (Singh and Wasdani, 2016; Rambo 2013; Osano & Languitone, 2016). Findings from the study (Figure 4.17 suggest that majority (approximately 93%) of sample MSME borrowers were either bank customers or approached bank through DIC. Only approximately 6% of sample MSME borrowers approached bank because of bank or government promotion.

A list of the schemes on offer by different Ministries and agencies for MSMEs is listed in Appendix 8. However, given the lack of a single window providing information on all schemes, many MSMEs remain unaware or find the procedure of accessing schemes being offered as complicated. Therefore, it is recommended that all such schemes directed to the sector must be launched under a single nodal agency, i.e. the Ministry of MSME.

(vii) Introduction of a standardised and minimal application or documentation approach specifically for MSME sector could ease the difficulties associated with borrowing process. Setting of such standard application and documentation process would require adequate analysis in order to capture the minimum but significant details of borrowers. A look at the specimen application form with documentary requirement checklist under PMMY scheme (Appendix 10 B) and a bank loan application minus any specific scheme (Appendix 10 A), shows that a bank loan minus any scheme has much more documentary requirements compared to loans under the PMMY scheme. Ministry of MSMEs can be entrusted the duty to come up with a uniform documentation system that can be applicable for all banks and all MSMEs.

(viii) Merely increasing credit flow to the MSME sector does not warrant that MSME borrowers will utilize the borrowed amount to successfully run the business and contribute to the GDP. It has been found that MSME borrowers in some cases use the borrowed amount to pay off previous debts (Refer Figure 4.19). Appropriate measures

need to be taken to ensure that amounts are being appropriately utilised. Also there should be strict penalty for wilful defaulters which will discourage them from misusing the relaxations offered. It is important to ensure that credit flow is directed to deserving borrowers and not wilful defaulters.

9.2.1 Additional Observations

An Expert Committee (Report of the Expert Committee on Micro, Small and Medium Enterprises, 2019) on Micro, Small and Medium Enterprises was created for proposing long term solutions, for the economic and financial sustainability of the MSME sector.

The Committee submitted its report which was released in June, 2019. A major suggestion of the committee is a “₹5,000 crores stressed asset fund for domestic micro, small and medium enterprises (MSMEs) in a relief to the small businesses hurt by demonetization, the goods and services tax and liquidity crunch”. The findings and suggestions from the Committee have been observed to be in similar lines with the current study. However the findings and suggestions from the Committee have relied heavily on Annual reports of Ministry of MSMEs and other reports which intrinsically exclude the unregistered sector. As discussed in previous chapters the number of unregistered MSMEs is substantially larger in comparison to registered MSMEs. Both the results of the current study and the Committee reports have found that “none of the banks are pursuing MSME lending as a core business strategy”, neither in all India level, nor in the state of Assam. The contribution of banks is worse in Northeastern part of India when compared to all India. The suggestions of the Committee supplement the findings and observation of the current study and also some additional observations and suggestions have been listed as follows:

(i) The Committee recommends an online portal in similar lines as mentioned in [9.3 (ii)] which can be synergized with banks as well as GSTN so that all borrowing information of the borrowers can be uploaded and the creditworthiness of the borrower can be assessed accordingly on the website. The Committee has suggested independent surveys every three years by the Ministry of MSME and also upgradation of the UDYOG Aadhar system which can also help address the issue.

(ii) As per the Committee reports, “reasons for lack of registration are many and varied”. For “nano/household type of enterprises, in their view, not obtaining registration is an escape from official machinery, paperwork, costs and rent seeking”. It has been

found from the current study that besides the problem of documentation, MSMEs are often unaware of the full range of benefits of registration and therefore are discouraged to get registered.

(iii) The Committee has recommended NSIC act as the nodal agency for all purpose registration of MSMEs. However NSIC as the nodal agency could be inefficacious as NSIC has limited resources and limited reach compared to DICs in Northeastern India (Refer Appendix 9). There are a total of 4 offices of NSIC in Assam, 3 of which are situated in Guwahati city and one in Tinsukia district. On the other hand, DIC has a district level office in all corners of the state. Appointing NSIC as the nodal registration agency would mean an applicant will have to travel to Guwahati in Assam from far flung areas to get registered. This will further deteriorate the rate of registration.

(iv) The Committee has highlighted the weaknesses of DIC as failure to implement single window scheme, poor performance and attendance of training programs by DICs, inadequate collection of statistics and information among others. The Committee has proposed “setting up of Enterprise Development Centres (EDCs) within DICs with the following primary verticals viz., Enterprise Development Vertical and Skill Development Vertical. The focus of such EDC would be to offer benefits to entrepreneurs’ viz. access to common tools and infrastructure, collaboration and sharing, networking, business infrastructure”. This recommendation supplements 9.3 (v).

(v) The study is in agreement with the Committee recommendation that “the Ministry of MSME should be the Nodal Ministry for all interventions pertaining to the MSME Sector, rather than multiple schemes being run by different Ministries for promotion of MSMEs in their respective domain” {9.3 (vi)}.

(vi) The Committee recommends that “the APSL (Adjusted Priority Sector Lending) mechanism be tried out starting with MSMEs in a phased manner. Under this mechanism, while there is no change in the underlying sectors eligible for PSL, there is additional weightage given to lending to the more underserved sectors and districts. The Committee further recommends increasing the all inclusive interest rate of lending to underserved areas and micro-segments where the cost of intermediation is higher”, which could however be detrimental to such beneficiaries unless such loans are provided with a subsidy scheme.

(vii) The committee has recommended “increase in the limit for non-collateralised loans to ₹20 lakh and revision in loan limit sanctioned under PMMY to ₹20 lakh from

₹10 lakh”. Such a step would definitely give a boost to the MSMEs in Assam and supplements 9.3 (vi). However, lack of awareness about such schemes is still a problem.

(viii) The Committee recommends that “the RBI facilitate the creation of additional information sources from where a financial institution may download a report which includes a score for the entity based on additional factors including business risk, industry risk, management risk, and financial risk. Additional parameters used in this score could include: Business Vintage, GST compliance, Direct Tax compliance, PF and ESI compliance, Export compliance, Promoter Net Worth. Such reports could also provide additional information including peer comparisons and industry analysis”. As recommended in 9.3 (i) these information sources can be stored in the unique ID allotted to each MSME borrower.

(ix) “Uniformity in and simplification of various loan application formats and assessment process” has been recommended by the Committee as concurred in 9.3 (vii).

(x) The Committee has also suggested modifications to the Delayed Payments Act, 1993 which was promulgated to solve the problems of delayed payments which adversely affect the cash flow of the MSMEs. The Committee recommends mandatory online uploading of bills above a certain limit and setting up of an authority to solve issues of delayed payments. If implemented it will certainly solve the cash flow problems of MSMEs and the fear of repayment of banks loans on time (Refer Figure 6.17) can be dealt with.

Additional observations beyond the findings of this study are:

(i) The Committee had also recommended that “SIDBI should help deepen credit markets for MSMEs in underserved districts and regions by handholding private lenders such as NBFCs and MFIs for increasing their presence and reach, working with local level bankers, differential pricing for refinance, awareness programs, etc. The other areas where SIDBI can contribute are: developing and deploying additional instruments for debt and equity which will help materialize new sources of funding for MSMEs”.

(ii) Cluster approach to bank services (ii) comes with hordes of benefit as mentioned in Chapter 5. However, out of the 388 MSME clusters recognised by UNIDO, none were from the Northeastern part of India. At present there are 16 clusters in Assam which have been approved by the Micro & Small Enterprises - Cluster Development Programme (MSE-CDP). With growing local industries in Assam especially in handicrafts and other

indigenous products with the potential of cluster formation, developing the cluster approach to get better bank services will prove beneficial for both MSMEs and banks.

(iii) An innovative service in the form of quick loans online was introduced in 2018 for the benefit of MSMEs. An online portal called ‘www.psbloansin59minutes.com’ with majority ownership of six Public Sector Banks (PSBs)/ Financial Institutions (FIs) along with their associated companies, was launched to facilitate ‘in principle approval for loans to Micro Small and Medium Enterprises (MSMEs) up to ₹1 crore within 59 minutes from PSBs’. Key features of the portal include enabling borrowers to connect with multiple banks without visiting the branch, financial technology (Fin Tech) based architecture with high level of information security, analysis of data from various data points, loan products in line with scoring models and assessment methods within approved credit policies, prima facie eligibility check for credit guarantee from CGTMSE etc. (Relaxing Lending Norms to MSMEs, 2019). The applicant will get an ‘in principle’ approval from the website after uploading necessary documents and then needs to approach the assigned bank for further monitoring and disbursement of loan.

The Committee reported that out of 68, 680 online approvals, only 45,265 applicants were finally sanctioned as on June, 2019. The portal charges an application fee of ₹1000 which will be a loss for the MSMEs if the applications get rejected. RBI has recommended that “banks need to ensure that all applications accorded in principal approval are disposed of within a period of 7-10 days”. Without an efficient monitoring system in place, the scheme has a potential threat to become a failure.

9.3 CONTRIBUTION TO THE BODY OF KNOWLEDGE

The present study has attempted to evaluate the scenario of commercial banks’ lending to MSMEs. The key contribution made to the body of knowledge by the study are, this is the first study in Assam that compares the commercial bank borrowing experience between MSMEs that have borrowed from banks with the assistance of DICs and MSMEs that have borrowed without the assistance of DICs. The research gap identified was that unregistered and informal sector, which are comparatively much higher in prevalence but also unaccounted for, remains mostly off the radar. The study reveals the influential factors that determine the difficulties in borrowing experience of MSME borrowers as well as the lending banks. In addition the status of lending to the MSME sector by banks in Assam has been investigated and the findings accordingly discussed.

9.4 SCOPE FOR FURTHER RESEARCH

The research can be extended to problems faced by MSME units in other states in India. Problems experienced by financial institutions other than banks in financing MSMEs are another area that can be explored. Government funded organisations which were set up with the aim of assisting the MSMEs such as DIC, NSIC, KVIB etc. can be evaluated for their roles and functions in terms of financial assistance and others. The performance of individual schemes for MSMEs can also be evaluated so that it can be found whether the schemes have been achieving its objectives.

9.5 CONCLUSION

The issue of financing of MSMEs has been researched at length by academic researchers, private agencies, government agencies, RBI working committees to name a few. It is not a new problem, but rather an old problem which needs to be addressed in new ways. Former Governor of RBI, Raghuram Rajan reportedly stated, “The demonetisation of high value currencies 2016, coupled with the launch of Goods and Service Tax (GST) regime in 2017 further aggravated the issue. The fund crunch dried up key sources of institutional funds for MSMEs” (Economic Times, 2018). Since then many new schemes have been offered by the government as an attempt to bring the growth of MSMEs back on track.

On March, 2019 the Reserve Bank of India (RBI) introduced a “one-time restructuring scheme for micro, small and medium enterprises (MSMEs) with a maximum exposure of ₹25 crore which has to be implemented by March 31, 2020”. The decision came as an outcome of increasing stressful assets in MSME sector out of schemes like PMMY and PMEGP. Banks are mandated by RBI “not to accept collateral security in the case of loans up to ₹10 lakh extended to units in the MSE sector. Banks are also advised to extend collateral-free loans up to ₹10 lakh to all units financed under the Prime Minister Employment Generation Programme (PMEGP) administered by KVIC”. Additionally banks may, “on the basis of good track record and financial position of the MSE units, increase the limit to dispense with the collateral requirement for loans up to ₹25 lakh (with the approval of the appropriate authority). Public sector banks have been advised to open at least one specialised branch for MSMEs in each district”.

A Report of the High Level Committee on Credit to SSI (now MSE) (Kapur Committee) was set up in 1998 to suggest measures for improving the delivery system and simplification of procedures for credit to SSI sector. Among the recommendations of the committee, it was decided to accept 88 recommendations which include 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 and opening of more specialised SSI branches. An important recommendation of the Working Group on Flow of Credit to SSI sector in 2003-04 was “the sanctioning of higher working capital limits by banks operating in the Northeast 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. It is also recommended to explore new instruments by banks for promoting rural industry and to improve the flow of credit to rural artisans, rural industries and rural entrepreneurs”.

At the same time, a study of risk profile of borrowers called the MSME Pulse Report (2018) by SIDBI-Trans Union CIBIL shows that locations in North and West regions in India have a comparatively better risk profile than the locations in South and East. It has been observed that the Northeastern part of the country is lagging behind in most aspects related to development of MSMEs. Though Assam comparatively has a higher presence compared to the other Northeastern states, it is still substantially much behind at an all India level as evident from the study.

There is no question about the government’s effort in trying to uplift the MSME sector. But it has not been very effective in ensuring that the schemes and policies benefit the target groups. Development is not ensured by merely implementing schemes but also taking appropriate measures to ensure that the schemes are being well implemented and reaches and benefits the target groups. The MSME sector is by definition extremely vast and difficult to monitor. The government must strengthen the agencies that act as mediators in implementing the schemes to MSMEs. Banks being the significant player in financing the sector and organisations like DIC, NSIC KVIB, KVIB being the intermediaries, all agencies have the potential to directly contribute to the growth of MSME sector when provided with adequate resources and mandate.