AN EMPIRICAL STUDY ON LENDING PATTERN AND PERCEPTION OF COMMERCIAL BANKS TOWARDS SMALL AND MEDIUM ENTERPRISES LENDING

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ABSTRACT

Micro, Small and Medium sector (MSME) is the most dynamic sector due to its capacity for innovation, competence for advancements and perseverance to face multiple challenges. Though this sector contributes 8 per cent to GDP, 45 per cent towards manufacturing output and 40 per cent of exports. Still, they lack support to grow exponentially. Understanding the lending pattern of the banks and the perception of commercial banks towards MSME lending is essential not only for academic knowledge but also could necessitate policy changes. The objective of the research is to understand the lending pattern of banks to SMEs and the perception of commercial banks towards SME lending. The researcher used both primary and secondary data. Statistical tools ANOVA and Kruskal Wallis tests are used to analyze the collected data. The results indicate that there is no significant difference in the lending pattern of public sector banks, Private sector banks and foreign banks and the bank staff have a similar level of perception on difficulties in lending to SMEs, perception on the rejection of loan, perception on reluctance to serve SME sector, perception on loan default and factors affecting credit decisions irrespective of the type of the bank and experience in SME lending.

Keywords: Micro, Small and Medium Enterprises, Commercial Banks, Bank Advances, Lending Pattern, Economic Development.

JEL Classification Codes: G21, G23, G28.

INTRODUCTION

Small and medium-sized businesses and a sound banking system is the foundation for a strong nation. SMEs occupy a vital place in economic development by offering vast job possibilities at relatively less

capital costs than big sectors. It enables rural industrialization and thereby decreasing regional imbalances and ensures a fair distribution of national income & wealth. The World Bank has noted that industrial growth was caused by big companies previously, but SMEs were considered the last main agents for industrialization from the early 1970s onwards.

SMEs are the dominant type of corporate enterprise worldwide. Of the total undertakings, 99% are small in the EU and approximately 80% in the U.S. The proportion in India is up to 97%. SMEs account for more than 98 % and 99.9 % of business in Hong Kong and Korea respectively. In Malaysia and Singapore, they account for 99 % of the small industries. The Indian Economy is expected to grow by more than 8% per annum till 2021 and becomes the second largest in the world by 2050, The target would be difficult to achieve without the involvement of this sector. The less capital intensive and high labour absorption nature of SMEs made a significant contribution to employment and also to rural industrialization.

For sustainable economic growth micro, small and medium enterprises are essential because they are the major contributors to GDP. In high revenue nations and low revenue nations, this industry makes an average contribution of 49% to the GDP. The 2010 study from the World Bank disclosed that SMEs are regarded as a growth engine in all countries. The power of the industry lies in the extensive distribution in rural, semi-urban and urban regions which foster entrepreneurship, shorter gestation and a fair share of revenue and wealth. MSME enterprises worldwide, including India, are the vehicles of sustainable and integrated development.

But the major constraint to the growth of SMEs is financing. Smaller entities often do not have the credentials to avail funding from banks or other formal lenders. They often have to go through cumbersome processes and pay exorbitant fees – impacting their competitiveness and growth prospects. Bank takes a longer duration to approve SME loans. In Spain, an SME may end up paying a bank 10% for a loan at a time when the bank's own cost of funds is close to zero. Lending to SMEs is perceived to be riskier than to large established firms (Hall & Fang, 2004).

In this backdrop, the research paper aims at understanding the lending pattern and perception of commercial banks towards SMEs.
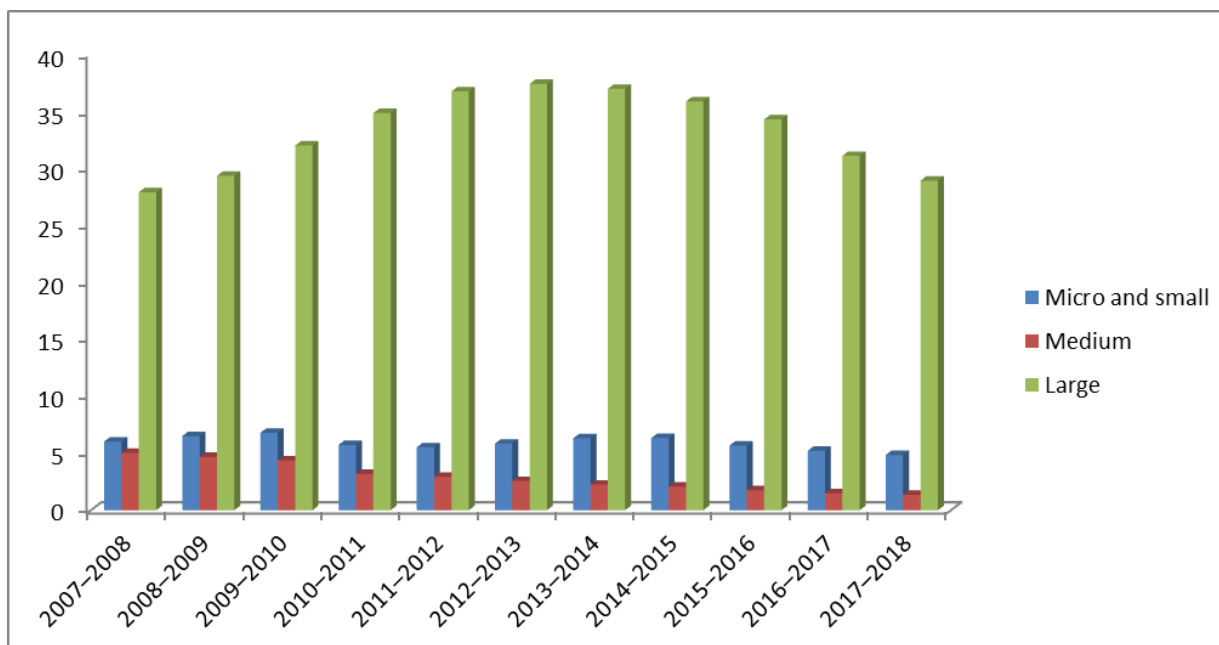

Figure 1. Average growth rate of Micro & small, medium and large enterprises in percentage

REVIEW OF LITERATURE

Fasola et al. (2020) the authors examined the gap by assessing the effect of business credit availability (information asymmetry, bank density, and credit rationing) on the profitability of SMEs in Southwest, Nigeria. The cross-sectional survey design is used in the research. The design is suitable for this study because the study sought information from the respondent's relating to their attitudes, beliefs, feelings, and behaviours. The research concludes bank density, information asymmetry, and credit rationing are seen to be major constraints to the profitability of SMEs.

Choudhury and Goswami (2017) examined the issues associated with institutional lending to MSMEs, extensive literature reviews were done for the period from 2005 to 2016. The study reveals the factors influencing MSME lending that includes competition among the banks, legal framework by government, Credit policies, lack of information about SME borrowers, firm characteristics and firm size.

Nair and Das (2019) prime minister Mudra Yojna (PMMY) enhanced refinance to SME finance by the banks. Public sector banks are participating in large in PMMY.

Soumya and Jayaprada (2018) the author outlines the importance and need of MSMEs, importance of government support, success and failure of private collaborations and the MSME environment in India with a special focus on the manufacturing sector. An attempt is made to understand the varying perceptions of the policymakers, implementers and beneficiaries (MSMEs) creating the finance gap.

Gupta et al. (2018) study focuses on analyzing the contribution of commercial banks and assessing the factors affecting bankers risk perception towards financing MSMEs in the state of Himachal Pradesh. The study finds that there exists a significant difference in the lending patterns of banks to MSMEs and Public sector banks contribute more towards MSME financing. The banks consider MSME financing as costly and time-consuming still they consider the MSMEs sector comparatively reliable, viable and safe in terms of NPA resulted in increased proportionate lending to this sector.

Jeyaraj and Prakash (2017) explored and reviewed the attitude of the borrowers regarding the lending services of BDFCL. Analysis of the data collected from the borrowers reveals that the majority of the borrowers have a moderate level of satisfaction with the services provided by banks.

Wangmo (2017) the author examines the variables used by the banks to determine the outcome of loan applications of SMEs in Bhutan. The major problem faced by SMEs in Bhutan is Inaccessibility to finance. An In-depth interview of Credit officials to understand the lending behaviour of banks towards SMEs is done. The age and educational qualification of borrowers have a positive relationship while the gender of the owner did not have any effect on bank loan accessibility.

Ghatule and Dubey (2016) the researcher has attempted to throw light on the role of SMEs in the Indian context, challenges & opportunities ahead for this sector. From the study, the author finds that the absence of adequate credit from formal sources, limited capital Knowledge, lower capacity of production, lack of marketing strategy, Identification of new markets, the challenge of getting skilled manpower are the challenges faced by the SMEs. Awareness should be crated about various incentives, subsidies and schemes to upkeep and boost this Sector.

Shikumo and Mwangi (2016) examined the determinants of lending to SMEs by commercial banks in Kenya. 43 commercial banks were taken as a sample size in the study. From the study, it was inferred that bank size and liquidity are the factors that significantly influence lending to SMEs by commercial banks. Credit risk and interest rate have no significant influence on lending to SMEs by commercial banks in Kenya. Effective policies should be developed to ensure commercial banks grow.

Abdulsaleh and Worthington (2016) the authors investigate the criteria used by loan officers at Bank Al Tanmeya when assessing SMEs loan applications and identify the key reasons leading to SMEs loan applications being denied. Semi-structured interviews were conducted to collect the data. From the study, it was found that the ability to provide collateral, good business plan, applicant's credit history, business experience and type of the business are the major factors considered by the bankers while

assessing the loan application. Most of the SME loan applications are rejected due to a lack of adequate collateral and a weak business plan.

Chaudhary and Ahalawat (2014) the researcher examined the problems faced by SMEs relating to credit. The objective is to understand the importance, financing of SMEs, hurdles in the SME sector, and to analyze whether the present credit flow system is satisfactory. Data is collected from the bank officers as well as from SMEs. Findings of the study infer that the process of credit flow is well carried out and it is based on proper analysis of borrowers by preparing a proposal for every borrower. Borrowers are satisfied with bank finance.

Irwin and Scott (2010) explored the barriers in raising finance by SMEs in the U.K, particularly the influence of personal characteristics of an entrepreneur. Stratified random sampling is used to select the sample size. Using a telephone survey, data was collected from 400 SMEs. The analysis of the data infers that among the personal characteristics, education made the difference to the source of finance.

RESEARCH METHODOLOGY

The type of research used in the research is descriptive. The study employs primary and secondary data, Non-probabilistic judgmental sampling is used to collect the primary data from 60 commercial banks of the Bangalore region. To understand the lending pattern, the study period of 15 years from 2005 to 2019 is considered. Secondary data is gathered from annual reports of MSME, RBI, national and international journals, collected data is analysed using SPSS (Statistical Package for Social Sciences) through different statistical tools ANOVA, Kruskal Wallis Test. Conclusion is drawn based on the analysis.

OBJECTIVES OF THE STUDY

- To understand the lending pattern of banks to SMEs.
- To understand the perception of commercial banks towards SME lending.

HYPOTHESIS OF THE STUDY

- H0: There is no significant difference in the lending pattern of public sector banks, private sector banks and foreign banks to the SME sector
- H1: There is a significant difference in the lending pattern of public sector banks, private sector banks and foreign banks to the SME sector.
- H0: Perception of commercial banks towards SME lending is the same.
- H2: Perception of commercial banks towards SME lending is not the same.

RESULTS AND DISCUSSIONS
Lending Pattern of Commercial Banks to SME SECTOR

Table 1. Advances of Commercial banks to SMEs from 2005 to 2019

Sl. No	Year	Public sector banks (INR crore)	Private sector banks (INR crore)	Foreign banks (INR crore)
1	2005	67,800	8,592	6,907
2	2006	82,434	10,421	8,430
3	2007	1,02,550	13,136	11,637
4	2008	1,51,137	46,912	15,489
5	2009	1,91,408	46,656	18,063
6	2010	2,78,398	64,534	21,069
7	2011	3,76,625	87,857	21,461
8	2012	3,96,343	1,10,514	21,760
9	2013	5,02,459	1,54,732	30,020
10	2014	6,15,976	2,00,138	30,020

11	2015	8,52,689	2,81,548	36,787
12	2016	8,20,548	3,59,085	36,374
13	2017	8,28,933	4,30,963	36,503
14	2018	8,64,598	4,10,760	48,881
15	2019	8,80,033	5,63,678	66,939
Total		**70,11,931**	**27,89,527**	**4,10,341**

Source: Report on 24th Standing Advisory Committee on MSME, FIDD, RBI, September 17, 2019

Table 2. ANOVA Table

Source of Variation	Sum of squares	V	Mean Squares
Between samples (Column Means)	SSC = 9,93,13,310	d.o.f =c-1=2	4,96,56,655
Within Samples (Errors)	SSE =18, 61, 97,793	d.o.f=c (r-1) 3 (15-1)= 42	44,33,280

Source: Computed value from secondary data

The calculated value of F is 11.20, this is greater than the tabled value F 0.05 = 3.22 α=0.05. This necessitates the rejection of the null hypothesis hence, there is a significant difference in the lending pattern of the public sector, private sector and foreign banks to the SME sector in India.

To understand the perception of bankers towards SME lending, Variables like perception of the bank staff on difficulties in lending to SMEs, perception on the rejection of loans, perception on reluctance to serve SME sector, perception on loan default and factors affecting credit decisions are used. Kruskal Wallis test is employed to understand the banker's perception towards SME lending.

Analysis of Demographic and Lending Characteristics of Bankers

Table 3. Demographic and Lending characteristics of Bankers

Particulars	Items	Number	Percentage
Type of the bank	Public	34	57
	Private	21	35
	Foreign	05	08
Experience in SME Lending	Less than 1 year	08	13
	More than 1 year less than 3 years	18	30
	More than 3 years less than 5 years	24	40
	More than 5 years	10	17
Training provided	Yes	47	78
	No	13	22
Separate Department	MSME separately	18	30
	Micro and small combined & medium enterprises separately	14	23
	SME combined but separately for large firms	28	47
Reasons for delay in processing the loan	Staff shortage	12	20
	Improper documentation	34	57
	Inadequate information on loan products	14	23
Specialised SME Recovery units	No	19	32
	Yes	41	68

Monitoring of loan recovery	No	36	60
	Yes	24	40
Communication of Bank schemes	Wall Posters/Brochures/Signboard	22	37
	TV/Newspaper	11	18
	Personal interaction	24	40
	Internet	03	05
Designing of the product	Head Office	13	21
	Brach Office	31	52
	Need of the client	10	17
	Standard	06	10
	As per demand	00	00

Source: Primary data

Table 4. Variances and Types of bank

Variables	H₀	Statistical Test	P-value	Result
Type of bank and Difficulties in lending to SME	The distribution of difficulties in lending is the same across the categories of Type of bank	Kruskal Wallis Test	0.400	H₀ is accepted
Type of bank and rejection of loan	The distribution of rejection of loan is the same across the categories of Type of bank	Kruskal Wallis Test	0.775	H₀ is accepted
Type of bank and reluctance to serve SME sector	The distribution of reluctance to serve SME sector is the same across the categories of Type of bank	Kruskal Wallis Test	0.851	H₀ is accepted
Type of bank and loan default	The distribution of loan default is the same across the categories of Type of bank	Kruskal Wallis Test	0.731	H₀ is accepted
Type of bank and factors affecting credit decision	The distribution of factors affecting credit decision is the same across the categories of Type of bank	Kruskal Wallis Test	0.500	H₀ is accepted

Source: Primary data

Table 4 reveals the perception of the bank staff on difficulties in lending to SMEs, perception on the rejection of loan, perception on reluctance to serve SME sector, perception on loan default and factors affecting credit decisions do not significantly differ based on the type of bank of the sample respondents. Therefore, it can be said that the bank staff have a similar level of perception on difficulties in lending to SMEs, perception on the rejection of loan, perception on reluctance to serve SME sector, perception on loan default and factors affecting credit decisions irrespective of the type of the bank.

Table 5. Variances and Experience in SME lending

Variables	H₀	Statistical Test	P-value	Result
Experience in SME lending and	The distribution of difficulties in lending is the	Kruskal Wallis Test	0.241	H₀ is accepted

Difficulties in lending to SME	same across the categories of Experience in SME lending			
Experience in SME lending and rejection of loan	The distribution of rejection of loan is the same across the categories of Experience in SME lending	Kruskal Wallis Test	0.555	H_0 is accepted
Experience in SME lending and reluctance to serve SME sector	The distribution of reluctance to serve SME sector is the same across the categories of Experience in SME lending	Kruskal Wallis Test	0.043	H_0 is rejected
Experience in SME lending and loan default	The distribution of loan default is the same across the categories of Experience in SME lending	Kruskal Wallis Test	0.021	H_0 is rejected
Experience in SME lending and factors affecting credit decision	The distribution of factors affecting credit decision is the same across the categories of Experience in SME lending	Kruskal Wallis Test	0.306	H_0 is accepted

Source: Primary data

Table 5 reveals that perception of the bank staff on difficulties in lending to SMEs, perception on the rejection of loan, and factors affecting credit decisions do not significantly differ based on the experience of the sample respondents in SME lending. However, the perception on reluctance to the serve SME sector and perception on loan default significantly differ based on experience in SME lending. Therefore, it can be concluded that the bank staff have a similar level of perception on difficulties in lending to SMEs, perceptions on the rejection of loans, and factors affecting credit decisions irrespective of experience in SME lending. But the sample bankers significantly differ on perception towards reluctance to serve the SME sector and perceptions on loan default based on experience in SME lending.

SUMMARY OF FINDINGS
From the analysis, it is found that there is a significant difference in the lending pattern of public sector banks, private sector banks and foreign banks. To analyze the perception of the bankers towards SMEs different non-parametric tests are used. The results show that the difficulties in lending to SME, rejection of loan, reluctance to serve SME sector, loan default and factors affecting credit decision is the same across the categories of types of bank, the study also finds that perceptions of the bank staff on difficulties in lending to SMEs, perceptions on the rejection of loan, and factors affecting credit decisions do not significantly differ based on the experience of the bankers in SME lending. Perception of the bankers towards reluctance to serve SME sector and loan default differs across the categories of experience in SME lending.

SUGGESTIONS
From the analysis, the researcher would like to suggest the following

To SMEs
▪ SMEs should provide all material information to the banks so that they can process the loan application of SMEs without any delay.

- SMEs should be aware of the criteria that banks consider as important in making a lending decision.
- SMEs should explore financing options available with banks and external agencies to maintain liquidity and meet short term requirements.
- Owners/managers of SMEs should undergo training in the areas of maintaining accounts that would not only promote their demand for credit but also increase their access to credit.

To Banks
- Banks should streamline the lending processes, limit paperwork and be quick to respond to loan applications.
- There should be transparency in loan sanctioning procedure and uniformity in the documentation required for loans across all banks, branches and locations.
- Banks should introduce autonomy in the lending process and online tracking can be introduced at the branch level to keep track of the borrowers and their repayment behaviour.
- Banks need to create a credit scoring system for SMEs which automate SME lending and improve credit risk management.

CONCLUSION

SMEs play a vital role in the progress and development of the Indian economy by contributing significantly to industrial output, exports and employment. It continues to create millions of jobs every year and producing more than 8,000 quality products for the Indian and International markets. Most SMEs are not aware of government-supported assistance schemes. Awareness of government schemes such as MUDRA and CGTMSE is low and inaccessible among SMEs. Banks should simplify their lending criteria and pay attention to opportunities for financing the MSME sector rather than focusing on requirements of high- collateral, charging of high- interest rates and excessive paperwork and cumbersome loan procedure. Banking facilities should be extended to remote areas and staff should be trained to deal with SMEs and they should view themselves as partners in promoting SMEs not just as credit providers. Banks should follow an approach of business based lending not asset-based lending. Banks can provide tailored lending packages to fit the capabilities and financial requirements of SMEs Hence, this study calls for a paradigm shift in banking structure and incentives.

DECLARATION OF CONFLICTING INTERESTS

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APPENDICES

Sl. No	Years	Public sector banks (INR crore)	Private sector banks (INR crore)	Foreign banks (INR crore)
1	2005	678	86	69
2	2006	824	104	84
3	2007	1026	131	116
4	2008	1511	469	155
5	2009	1914	467	181
6	2010	2784	645	211
7	2011	3766	879	215
8	2012	3963	1105	218
9	2013	5025	1547	300
10	2014	6160	2001	300
11	2015	8527	2815	368
12	2016	8205	3591	364
13	2017	8289	4310	365
14	2018	8646	4108	489
15	2019	8800	5637	669
Total		70118	27895	4104

		4674	1860	274
Mean $\bar{X}$		**X1**	**X2**	**X3**

Grand Mean $\bar{\bar{X}}$ = 4674+1860+274 = 2269

Variance between the samples

$(\bar{X}_1 - \bar{\bar{X}})^2$	$(\bar{X}_2 - \bar{\bar{X}})^2$	$(\bar{X}_3 - \bar{\bar{X}})^2$
5784025	167281	39,80,025
5784025	167281	39,80,025
5784025	167281	39,80,025
5784025	167281	39,80,025
5784025	167281	39,80,025
5784025	167281	39,80,025
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5784025	167281	39,80,025
5784025	167281	39,80,025
5784025	167281	39,80,025
5784025	167281	39,80,025
5784025	167281	39,80,025
57840250	1672810	39,80,0250

Sum of Squares between samples (SSC) 9, 93, 13, 310

Variance within Samples

X1	$(X1 - \bar{X}_1)^2$	X2	$(X2 - \bar{X}_2)^2$	X3	$(X3 - \bar{X}_3)^2$
678	1,59,68,016	86	31,47,076	69	42,025
824	1,48,22,500	104	13,27,536	84	36,100
1026	1,33,07,904	131	29,89,441	116	24,964
1511	1,00,04,569	469	19,34,881	155	14,161
1914	76,17,600	467	19,40,449	181	8,649
2784	35,72,100	645	14,76,225	211	3,969
3766	8,24,464	879	9,62,361	215	3,481
3963	5,05,521	1105	5,70,025	218	3,136
5025	1,23,201	1547	97,969	300	676
6160	22,08,196	2001	19881	300	676
8527	1,48,45,609	2815	9,12,025	368	8,836
8205	1,24,67,961	3591	29,96,361	364	8,100
8289	1,30,68,225	4310	60,02,500	365	8,281
8646	1,57,76,784	4108	50,53,504	489	46,225
8800	1,70,23,876	5637	1,42,65,729	669	1,56,025

	$\sum(X1- \bar{X} 1)^2$		$\sum(X2- \bar{X} 2)^2$		$\sum(X3- \bar{X} 3)^2$
Total	**14,21,36,526**		**4,36,95,963**		**3,65,304**

Sum of squares within the samples (SSE) = 14, 21, 36,526 +4, 36, 95,963+3, 65,304 =18, 61, 97,793

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