

**“Critical Evaluation of Financial Services provided
for Marginal Entrepreneurs by Selected Banks in
Gujarat”**

A Thesis submitted to Gujarat Technological University

for the Award of

Doctor of Philosophy

in

Management

by

Dubal Jahnvi Kishorbhai

[Enrollment No. 119997392011]

under supervision of

Prof. (Dr.) Ram Kumar Balyan



GUJARAT TECHNOLOGICAL UNIVERSITY

AHMEDABAD

August- 2021

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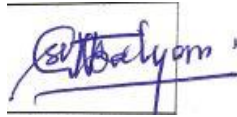
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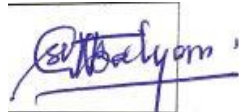
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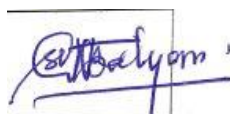


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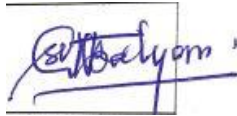


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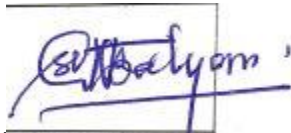
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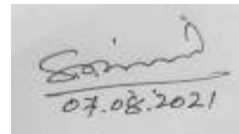
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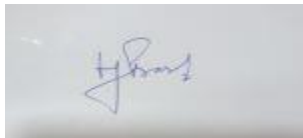
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ABSTRACT

Entrepreneurs are the growth engine of the economy. They act as change agent by playing vital role in the process of industrial and economic development of any country. It makes significant contribution in gratifying various socio-economic objectives such as growth in employment, increased output, promotion of exports etc. The role of entrepreneurship in economic development varies from economy to economy depending upon its material resources, industrial climate and the responsiveness of the political system to the entrepreneurial function. Path breaking offerings by entrepreneurs, in the form of new goods & services, result in new employment, which can produce a cascading effect or virtuous circle in the economy. If we understand the benefits and drawbacks, a balanced approach to nurturing entrepreneurship will definitely result in a positive impact on economy and society.

The study aims at financial necessity of the marginal entrepreneurs, various sources of finance, their difficulty in procuring the same and if finance adequately in time then their potential to the growth of the economy. The research problem is Critical Evaluation of financial services provided for marginal entrepreneurs by selected banks in Gujarat. Keeping in view, the role and importance of small entrepreneurs and their necessity of finance and difficulties in getting it and if financed ultimately leads to enhanced economy performance. After careful investigation of literature, researcher found that there is lack of research in bank finance to entrepreneurs especially in the Gujarat. Various researchers have found the different aspects of financing gap. But among all, the bank finance is considered as the primary source of finance and there is urgent need to analyses the reasons of unavailability of bank finance to the entrepreneurs. That is why the topic has attracted me to select for research study.

For this study, primary and secondary data are used. To collect the primary data from respondents, researcher has used the structured questionnaire. Separate questionnaires prepared for the entrepreneurs and bankers. For the collection of secondary data, published annual reports of selected banks, data available in RBI website and other authenticated sites and documents are used.

This study is analytical in nature. After collecting the data from primary and secondary sources, thorough analysis is done from various aspects. Further, to test the demand side and supply side hypothesis of the study, researcher has used the Chi Square technique. On the basis of same, findings are presented.

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Dubal Jahnavi Kishorbhai

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Chapter - 1

Overview of the Study

Chapter contents:

- 1.1 Introduction***
- 1.2 Financial Services***
- 1.3 Bank***
- 1.4 Banking***
- 1.5 Demand for finance by
entrepreneurs***
- 1.6 Flow of finance to marginal
entrepreneurs sector***
- 1.7 Financing gap in marginal
entrepreneurs sector***

1. Overview of Entrepreneurship and Micro, Small and Medium Enterprise Sector:

1.1 Introduction:

Enterprise is defined as the act of creating, innovating and setting up a business, taking financial risks expecting profits. The enterprise in company form offers a product, a process or service for sale or hires to professionals or individuals, contributing to a community's overall economic development. Entrepreneurs are the growth engine of the economy. They act as change agent by playing vital role in the process of industrial and economic development of any country. It makes significant contribution in gratifying various socio-economic objectives such as growth in employment, increased output, promotion of exports etc. The role of entrepreneurship in economic development varies from economy to economy depending upon its material resources, industrial climate and the responsiveness of the political system to the entrepreneurial function .Path breaking offerings by entrepreneurs, in the form of new goods & services, result in new employment, which can produce a cascading effect or virtuous circle in the economy .If we understand the benefits and drawbacks, a balanced approach to nurturing entrepreneurship will definitely result in a positive impact on economy and society.

Entrepreneurship is known for the high risks involved in launching a startup. The fact is people often suffer failures along the their path to success, and some businesses have to close, due to a lack of fund, sales decisions, or a lack of demand in the market. That's why entrepreneurship is mostly viewed as something risky and out of the comfort zone. Enterprise takes courage to make ones dreams come true and see possibilities, solutions and opportunities for the future where others see only problems. Entrepreneurs face many challenges specifically of funding. Although, various sources of finances are available to the small Entrepreneurs, mainly divided into two: formal and informal. Timely availability of finance from formal sources always remains challenging. The study aims at the importance of marginal entrepreneurs in the growth of the economy, distinct problems faced by them specifically difficulty in availability of finance and their potential, if financed in required amount at the time necessary, ultimately leads to the enhanced economic performance.

Indian economy is conquered by entrepreneurs with a vivacious set of enterprises, which are prestigiously known as Micro, Small and Medium Enterprises. Contribution of entrepreneurs in the form of small and medium sized firms has always significant in the Indian economy.

Prevailing and new generation entrepreneurs have played significant role in generating GDP, creating employment opportunities, producing goods and services at lower costs and generating foreign exchange through trade. Identifying the significant contribution of entrepreneurs in economic growth and also in employment generation in the country, Government of India had taken various initiatives to develop them and SMEs. Looking to the significance of entrepreneurs and SMEs, it is estimated that if India aspirations to have growth rate of 8 – 10% for the next couple of decades, it needs a strong facilitation and environment for entrepreneurs and SME sector. Without that, it seems to be very difficult to achieve the sustainable growth.

Today, there are about 30 million MSMEs in the country and this sector has shown an average growth of 18% over the last five years. In this backdrop, MSME is considered to be fast growing sector of the economy. The sector is gaining more prominence to realize the theme of 12th Five Year Plan (2012-2017), ‘faster, sustainable and more inclusive growth’.

However, there is an existing market failure between entrepreneurs and potential financiers, financing gap to be present. For the progress of entrepreneurs, finance is the most vital element, without that, growth and development of any enterprise is not possible. Various researches have proved that bank finance is one of the major source of finance for entrepreneurs apart from other sources. Though, availability of bank finance as per requirement is always be a critical issue. In spite of various efforts by the Government of India and Reserve Bank of India, it is considered as unsettled issue for entrepreneurs and banks.

1.2 Micro, Small and Medium Enterprise Sector:

Generally the term ‘MSME’ portray the small businesses in the private sector. Different countries use different factor such as employee strength, annual sales, value of fixed assets, and loan size proxies to define the sector in the context of finance. In India, the Micro, Small and Medium Enterprise Development Act 2006 of the Government of India provides the definition of the MSME sector. The definition uses investment in plant and machinery as a factor to category the enterprises. Following table 1 shows the definition of MSME Act.

Table 1.1: MSMED Act Definition of MSME

Initial Investment in Plant and Machinery (in INR Million)			
Category/ Enterprise Size	Micro	Small	Medium
Manufacturing	< 2.5 (< 50,000)	2.5 – 50 (50,000 – 1 Million)	50 – 100 (1 Million – 2 Million)
Service	< 1 (< 20,000)	1 – 20 (20,000 – 0.4 Million)	20 – 50 (0.4 Million – 1 Million)

Figures in brackets are in USD (\$), Source: MSMED Act

Table 1.2: Internal Definitions used by Financial Institutions (in INR Million)

Size	Micro		Small		Medium	
Institute Type	Turnover	Credit Size	Turnover	Credit Size	Turnover	Credit Size
Private Commercial Banks	1.5 – 50	0.2 – 1	50 – 200	5 – 150	200 – 2000	50 - 200
Non-Banking Finance Companies	0.05 – 1	1 – 5	5 – 25	0.3 – 5	10 – 1000	2.5 - 50

Source: IFC report on MSME Finance in India

Though investment in plant and machinery are substantial and computable, the current definition provides limited information on the financial requirement and financial performance of an enterprise. As an outcome, many financial institutions prefer using annual sales or revenue (turnover) to sector and put MSMEs as a key factor for product development and risk management, instead of investment in plant and machinery as shown in table 1.2.

1.3 Economic Contributions of Entrepreneurs:

It is imperative to consider that in addition to helping catalyze the growth of the economy, entrepreneurs support large local and international value chains as well as local consumer

markets as supplier, manufacturers, contractors, distributors, retailers and service providers via Micro, Small and Medium Enterprises. They are responsible for a very large share of industrial units and in addition have a say considerably to employment in the country. Following table 1.3 present the key statistic on economic contribution of MSME sector.

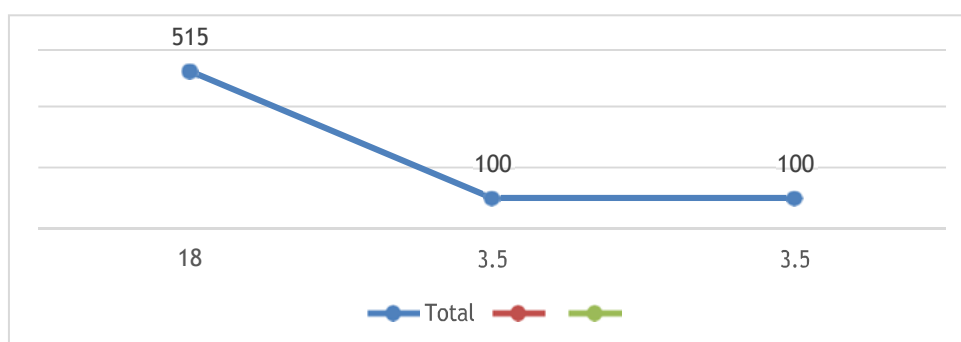
Table 1.3 Key Statistics on Economic Contribution of MSME

Share of	Value
Industrial Units	95%
Industrial Output	45%
Exports [in value]	40%
Gross Domestic Product (GDP)	8%
Employment (in millions)	69

Source: Ministry of MSME, Annual Report, 2009-10; RBI

Contemporary approximation of small entrepreneurs' contribution to GDP do not take into account the contribution made by unrecognized private enterprises, for which asset and sales data is not included by government agency. Growing at 11.5% year, the segment has been performing better than the overall GDP (8% growth per annum) and overall industrial yield (measured by Index of Industrial Production – IIP) as shown in figure 1.1 below.

Figure 1.1 Growth of MSME Sector vs. Growth in GDP and IIP



Source: Ministry of MSME, Annual Report 2009-10

Marginal entrepreneurs are efficient device for employment creation. Indian urban region have been experiencing the load of a constantly growing population, involving an increasing

fraction of migrant in search of employment and source of revenue. City transportation is already prolonged, and policy makers are looking for way out to moderate issues occurring from migrant population enlargement. rustic marginal entrepreneurs and those stayed outside of the mega cities, offer a feasible option for employment to local manpower, consequently, giving a prospect for public to contribute in prolific, non-farm actions, with no requiring to move around to city areas. With sufficient monetary and non-financial resources, as well as capacity building, the marginal entrepreneurs segment can raise and contribute to economic development noticeably higher than it is doing currently.

1.4 Marginal entrepreneurship Landscape in India:

- In 2009-10, the Indian marginal entrepreneurs sector was estimated to include 29.8 Million enterprises. In order to support these unorganized sectors to register, the Ministry of MSME has cut down the listing procedure (restoring the former two-stage listing procedure with a one-step filling of memorandum). The segment has been emerging at an effectual rate of four percent annually over the last three years from 2008-10. The portion of registered enterprises in the segment is expected to be only almost 6 percent, which would demonstrate that the segment is conquered by unregistered enterprises that do not maintain business information with District Industry Centers (DICs) of the State/ Union Territory. In order to persuade these unorganized units to register, the Ministry of MSME has cut down the registration process (replacing the earlier two- stage registration process with a one-step filling of memorandum).In addition to the registered enterprises covered by the MSME census, the sector has an additional 30 million enterprises.

Table 1.4 Size of the MSME Sector in India (in Millions)

Year	Registered	Unregistered	Total Units
2006-07	1.5	24.6	26.1
2009-10	1.8	28.0	29.8

Source: MSME Census, Ministry of MSME Annual Report 2009-10

1.5 Heterogeneity in the Marginal Entrepreneurship Sector:

The segment is classified into Micro, Small and Medium based on the size of the enterprise, as defined earlier. Each of these segment however is extremely diverse, due to differences in ownership structure, area of operation, type of industry, and the stage of development of an enterprise. Business activities of these units are not governed by any legal provision, and these usually do not preserve any official financial accounts. Most of these can be defined as the micro enterprises.

151 : Differences in Ownership Structure: The type of ownership structure of enterprises decide the requirement of capital, these enterprises can get and take in from external sources. For example, proprietorship and partnership enterprises cannot allow any form of external equity other than owner contributions. This can drastically impact growth latent both at initial stage as well as the growth stage when the enterprise is in need of growth of funds. Table 1.5 indicates five different types of ownership structures. Proprietorship is the most commonly taken up ownership structure (94.5% of all MSMEs), primarily because this structure needs lesser legal expenses. The other ownership structures taken by enterprises include partnership, cooperative, private limited company and public limited company. Mature small, medium and new knowledge based enterprises in the segment are mostly structured as private limited or public limited companies.

Table 1.5 Ownership Structure of Enterprises in the MSME Sector

Ownership Structure	Share of MSMEs
Proprietorship	94.5%
Partnership, Cooperatives	1.2%
Private Limited. Public Limited	0.8%
Others	3.5%

Source: MSME Census

152 Diversity in Industry function: Enterprises in the segment can be advance classified into manufacturing and services. With added 8000 products variety from hand-made products to lofty accuracy machine parts, and several services focusing to both engineering and customer markets offered by Marginal entrepreneurs, there is evidently a vast variety within the two groups. The industrialized segment aims for an

anticipated 29% of total enterprises in the Marginal entrepreneurs segment, while the services segment aims for the remaining 71%.

Table 1.6 Top Ten Manufacturing Industries in MSME Sector’s Gross Output

Industry	Share of Gross Output of the MSME Sector
Food Products & Beverages	19%
Textiles	10%
Basic Metals	10%
Chemical & Chemical Products	8%
Fabricated Metal Products	7%
Machinery & Equipment	6%
Wearing Apparel	5%
Rubber & Plastic Products	4%
Transport Equipment	3%
Nonmetallic Mineral Products	3%
TOTAL	75%

Source: IFC – Intelcap Analysis

Industrialized Marginal entrepreneurs support supply chains of local huge enterprises, global hefty enterprises or local customer markets. Food processing is the key industrialized industry. Additionally, an outsized number of marginal entrepreneurs in the food and textile industries are export-oriented and provide bulky worldwide supply chains or worldwide consumer markets. Service marginal entrepreneurs function in conventional transaction based industries such as retail trade, tiny transport operations and knowledge based industries such as information technology, human resource consulting among others. Though, the service segment counts for a bigger number of enterprises, it is the top ten industries in industrialized that is responsible for 75% of the segment’s total production.

The top ten services industries are responsible for a total of 5% of the gross production by the Marginal entrepreneurs’ segment production. The service sector is subjugated by retail trade, repair and maintenance shops, tiny transport functions among others,

most of which characteristically add in far match up to industrialized segment enterprises. On the other hand, the service sector is observing a steady augment in the number of knowledge based enterprises, which are likely to have an advanced production per enterprise as measure up to the conventional service enterprises.

Table 1.7 Top Ten Service Industries in MSME Sector’s Gross Output

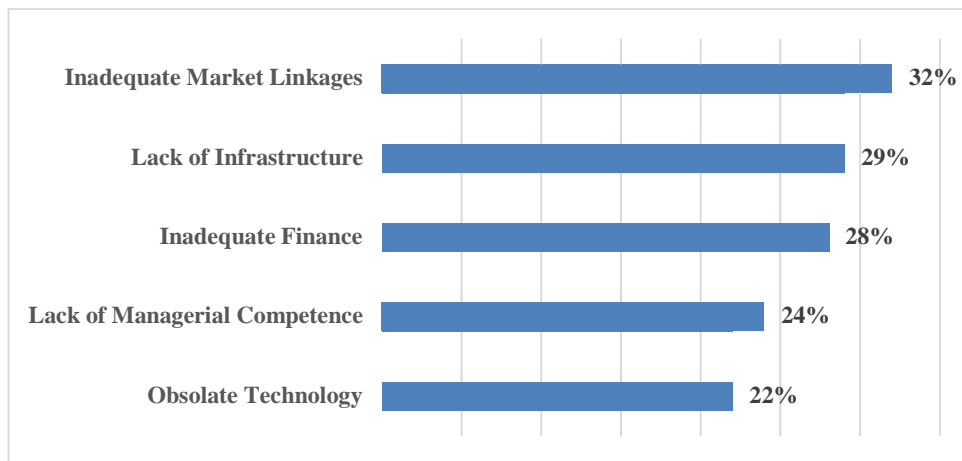
Industry	Share of Gross Output of the MSME Sector
Agriculture based Activities	1.3%
Repair and Maintenance of Motor Vehicles	1.1%
Retail	0.7%
Professional Business Activities	0.6%
Computers and Information Technology	0.3%
Transport and Travel Agents	0.3%
Forestry and Logging Activities	0.3%
Other Service Activities	0.2%
Utilities Supply	0.2%
Post and Telecommunication	0.1%
TOTAL	5.0%

Source: IFC – Intellcap Analysis

153 Variation in Geography of function: there are important geographical variations in India that force the allocation of Marginal entrepreneurs. The accessibility of natural assets and other regional distinctiveness also decide the type of an enterprise and scale of business.

154 MSME Growth influenced by various restraints: even though, the Marginal entrepreneurs segment has been rising at a quicker rate than the by and large industrialized segment. Marginal entrepreneurs face various restrictions that intimidate to specify the segment’s expansion trail. Some of important obstacles that Marginal entrepreneurs face are shown in figure1.2.

Figure 1.2 Key Growth Constrains for MSMEs



Source: Report of Working Group on Rehabilitation of Sick MSMEs, RBI

Insufficient Market connection: apart from, in the case of cluster linked and auxiliary Marginal entrepreneurs that have usual association with big enterprises, Marginal entrepreneurs have a propensity to have deprived market contact. The non-cluster Marginal entrepreneurs are disjointed and as an effect, are incapable to systematize themselves in order to lessen acquiring expenses from outsized enterprises or update the production supply chain. Worse part is, in the nonexistence of sufficient market association, any demand disturbance in the supply chain can rigorously force function as the enterprise funds of these industry have a propensity to be protected in illiquid stock and receivables.

Short of proper Infrastructure: Inadequate availability to infrastructure such as power, water and roads and rails transport enhances functional expenses for Marginal entrepreneurs and makes their business collegial. Insufficient availability to sustain infrastructure dispirit these entities. From adopting newer technologies, where available. In accumulation, deprived infrastructure services small and medium business to function in select geographies, escalating the demand for natural funds in that area.

Insufficient funding: Marginal entrepreneurs face troubles in availing money as one of the major restraint in expansion. A study on the Marginal entrepreneurs segment also implies that the many growth restraints can be mostly related to insufficient availability of funding. The Report of Working Group on Rehabilitation of Sick Marginal entrepreneurs by RBI also finds lack of sufficient and well-timed availability to working capital funds is one of the main causes for illness in the segment.

Lack of supervisory competency: Micro and small enterprises in particular mostly

consist of first-generation entrepreneurs, who have had a limited structured education on resource setting up, funds management and manpower management. As an outcome, lack of managerial capability often demonstrated in improper book-keeping and a limited awareness of recognized financial institutions, which additionally hinder the expansion of these enterprises.

Outdated technology: As industries such as automotive, forging, software development segment require advanced technologies in functions, the many of the small and medium entrepreneurs do not have that kind of technological edge. A low technology foundation results in low efficiency, which makes these entrepreneurs less competitive. Financial institutions connect lack of technology with collegial businesses and therefore are cautious of financing entrepreneurs which are not technologically up-to-date in functions. These entrepreneurs have inadequate knowledge about new technologies, or the technology financing schemes.

The 2007 Marginal entrepreneurs Census indicated that only 5% of entrepreneurs in the segment had availability to several types of recognized finance, while over 92% of the entities found having short of availability to any type of institutional finance. Studies on financing pattern in the segment and the Marginal entrepreneurs survey advocate that Marginal entrepreneurs prefer self-financing, which not only includes the savings of the entrepreneurs, but also the funding availed from friends, family and relatives.

Table 1.8 Percentage of Split of MSMEs by Sources of Finance

	No Finance/ Self Finance	Through Institutional Sources	Through Non institutional Sources
Percentage of Enterprises	92.80%	5.20%	2.10%

Source: MSME Census 2007

Nevertheless, the situation has been varying in current days. As a consequence of larger focus on the Marginal entrepreneurs segment by the government and the regulator as well as by the financial sector, institutional finance to Marginal entrepreneurs has been enlarged significantly. Working on the 2010 data from the Reserve Bank of India (RBI), the study approximates that financial institutions provide, to some point or the other, nearly (33%) of the Marginal entrepreneurs.

Conversely, in spite of the enhanced availability, various micro and small entrepreneurs stay not served and underserved. Policymakers in India have always maintained a watch on Marginal entrepreneurs funding, as specified by the Priority Sector Lending (PSL) norms for commercial banks that were set, and have been in place, for some decades now. Setting programs such as the Credit Guarantee Trust in present days has given a changed drive to that object. On the other hand, in spite of the policy efforts and a evidently more receptive recognized financial segment, the Marginal entrepreneurs segment go on with to face a funding gap due to intrinsic demand and supply-side restraints. This study highlights on some of these major confronts.

2. Financial Service

2.1 Introduction

Financial services are the economic services provided by the finance industry, which takes in a wide variety of organizations that administer money, including credit unions, banks, credit card companies, insurance companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises.

2.2 History of financial services

The term "financial services" became more widespread in the United States partly as a result of the Gramm-Leach-Bliley Act of the late 1990s, which facilitated different types of companies working in the U.S. financial services industry at that time to amalgamate.

Companies typically have two separate approaches to this new type of business. One approach would be banks which just acquire an insurance company or an investment bank, maintain the original sort of the obtained firm, and insert the acquirement to its investment company only to expand its paycheck. Outside the U.S. (e.g., in Japan), non-financial services companies are allowed within the investment company. In this situation, each company still appears autonomous, and has its own clientele, etc. In the other method, a bank would merely make its own brokerage unit or insurance unit and try to sell those products to its own current clientele, with inducement for uniting all things with one company.

2.3 Different Financial Services

Banks: A "commercial bank" is what is usually referred to as merely a "bank". The word "commercial" is used to differentiate it from an "investment bank," a sort of financial services unit which, instead of lending money directly to a business, helps business move up money from other firms in the form of bonds (debt) or stock (equity).

Banking services

- The key functions of banks include:
- Maintaining money safe also allowing withdrawals as and needed.
- Issuing cheque books so that invoices can be settled and other types of payments can be made.
- Facilitate personal loans, commercial loans, and mortgage loans. (usually loans to buy a home, property or business premises)
- Issuing and processing credit cards transactions and invoices
- Issuing debit cards for use as an alternate for cheques.
- Make possible financial transactions at branches or by using Automatic Teller Machines (ATMs)
- Transfers of funds and Electronic fund transfers between banks
- Facility of standing orders and direct debits, so payments for invoices can be made fast and automatically.
- Facilitate overdraft agreements for the temporary advances of the Bank's own fund to settle monthly spending expenses of a consumer in their current account.
- Facilitate with internet banking system to the customers to view and function their respective accounts through internet.
- Facilitate Charge card advances of the Bank's own fund for consumers wanting to settle credit advances monthly.
- Facilitate a cheque guarantee by the Bank itself and prepaid by the customer, such as a cashier's cheque or certified cheque.
- Notary service for financial and other documents
- Accepting the deposits from customer and provide the credit facilities to them.

Other financial services

1. **Intermediation or advisory services** - These services include stock brokers (private client services) and discount brokers. Stock brokers help investors in buying or selling shares. For the most part, internet-based companies are frequently referred to as discount brokerages, even though many now have branch offices to help clients. These brokerages basically assist individual investors. Full service and private client firms chiefly help and implement trades for clients with large amount of capital to invest, such as big companies, wealthy individuals, and investment management funds.
2. **Equity** - Private equity funds are normally closed-end funds, which typically take controlling equity stakes in business that are either private, or taken private once

obtained. Private equity funds frequently utilize leveraged buyouts (LBOs) to acquire the firms in which they invest. The most successful private equity funds can produce returns extensively higher than provided by the equity markets

3. **Venture capital** is a type of private equity capital normally provided by professional, external investors to new, high-potential-growth companies in the interest of captivating the company to an IPO or trade sale of the business.
4. **Angel investment** - An angel investor or angel known as a business angel or informal investor in Europe, is a prosperous person who provides capital for a business start-up, typically in exchange for convertible debt or ownership equity. A tiny but increasing number of angel investors organize themselves into angel groups or angel networks to allocate research and pool their investment capital.
5. **Conglomerates** - A financial services conglomerate is a financial services firm that is active in more than one sector of the financial services market e.g. life insurance, general insurance, health insurance, asset management, retail banking, wholesale banking, investment banking, etc. A main reason for the survival of such business is the subsistence of diversification advantage that are there when different types of business are collectivized i.e. bad things don't always happen at the same time. As a result, economic capital for a conglomerate is normally considerably less than economic capital is for the sum of its parts.
6. **Debt resolution** - It is a customer service that helps persons having large debt to pay off as asked for, but do not want to file insolvency and want to pay off their debts owed. This debt can be accumulated in several ways involving but not limited to personal loans, credit cards or in some cases merchant accounts. There are many services/companies that can help with this.

2.4 Financial Services in India

Indian financial markets, largely consisting of segments like asset management, banking, insurance, foreign direct investments and foreign institutional investors, efficiently uphold the savings of the economy by straightening them towards suitable investment alternatives. The Indian financial sector is very well developed, competitive and integrated to face all troubles. World Economic Forum's latest report 'Financial Development Report 2012' has named India as the world's top-ranked country in terms of life insurance density. Life insurance density is the ratio of direct domestic premiums for life insurance to per capita gross domestic product of a country. India has been ranked 40th in terms of overall financial development of a

country, but is much ahead of larger economies like the US, UK, Japan and China for life insurance density.

Banking Services

Important recent statistics related to the Indian banking industry are discussed below:

According to the Reserve Bank of India (RBI)'s 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks', March 2012, nationalized Banks accounted for 53.0 per cent of the aggregate deposits, while the State Bank of India (SBI) and its Associates accounted for 21.8 per cent. The share of New Private Sector Banks, Old Private Sector Banks, Foreign Banks, and Regional Rural Banks in aggregate deposits was 13.0 per cent, 4.8 per cent, 4.4 per cent and 3.0 per cent, respectively. Nationalized Banks are responsible for the highest share of 52.0 per cent in gross bank credit followed by State Bank of India and its Associates (22.5 per cent) and New Private Sector Banks (13.5 per cent). Foreign Banks, Old Private Sector Banks and Regional Rural Banks had shares of around 4.8 per cent, 4.8 per cent and 2.4 per cent, respectively. Another statement issued by the RBI revealed that foreign exchange reserves stood at, US\$ 294.99 billion for the week ended January 4, 2013 wherein the value of gold reserves was recorded at US\$ 27.21 billion and that of foreign currency assets (FCAs) was at US\$ 261.06 billion. The value of special drawing rights (SDRs) was US\$ 4.40 billion and the country's reserve position with the IMF was at US\$ 2.30 billion.

Financial Services in India: Recent Developments

- The Ergo Insurance Group, part of world's leading reinsurer Munich Re, and the Avantha Group, India's leading business conglomerate, have come into a joint venture agreement in the space of life insurance. The new company, to be named Avantha Ergo Life Insurance Company Ltd, is anticipated to begin function at the beginning of 2014, subject to regulatory approval.
- The Small Industries Development Bank of India (SIDBI) has associated with eight regional rural banks (RRBs) and urban co-operative banks in West Bengal. The scope of agreements involves training the staff of RRBs and co-operative banks in project appraisal, monitoring and collection as also providing free availability to software on a down-scaling methodology designed for lending to micro enterprises.

Financial Services: Government Initiatives

The Indian Government has re-affirmed its efforts to push economic growth by increasing the FDI limit from 26 per cent to 49 per cent in insurance. The reform is anticipated to delight international players who had been waiting to venture into India and also persuade existing

players to enlarge their stakes in strategic association. The Indian insurance sector needs US\$ 10-12 billion capital infusion in the next five years. Moreover, in a bid to magnetize higher foreign inflows, the Government of India (GoI) has released up an opportunity for FIIs of all authorities to earn tax-free interest by investing in debt instruments of a state-owned enterprise. Owing to this landmark move, FIIs and non-resident Indian (NRIs) have been consented to invest in the public issue of tax-free bonds by Housing and Urban Development Corporation that released up on January 9, 2013.

The GoI has also permitted the institution of a Credit Risk Guarantee Fund Trust (CRGFT) for low income housing, with a preliminary spend of Rs.1000 crore (US\$ 185.92 million). The CRGFT, scheduled on May 1, 2012 and initiated on October 31, 2012 would administer and operate the Scheme, which is demand-driven, as stated by Ajay Maken, Union Minister of Housing & Urban Poverty Alleviation (HUPA).

3. Bank

3.1 Introduction

A bank is a financial institution and a financial intermediary that collects the deposits and channelizes those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank is the link between customers that have capital requirements and customers with capital surplus.

Due to the pursuance within a financial system and an economy, banks are usually highly regulated in most countries. Most banks operate under a system known as fractional reserve banking where they hold merely a small reserve of the funds deposited and lend out the rest for profit. They are usually subject to minimum capital requirements which are based on an worldwide set of capital standards, known as the Basel norms.

The oldest bank still in subsistence is Monte deiPaschi di Siena, headquartered in Siena, Italy, which has been functioning continuously since 1472. It is followed by Berenberg Bank of Hamburg (1590) and SverigesRiksbank of Sweden (1668).

Banking in its contemporary sense went forward in rich cities of Renaissance Italy, such as Florence, Venice and Genoa. In the history of banking, a number of banking reign—among them notably Medici, Fugger, Welser, Berenberg, Baring and Rothschild—have played a vital role over many centuries.

3.2 Definition

The definition of a bank differs from country to country. As per English common law, a

banker is defined as a person who carries on the business of banking, which is specified as:

- conducting current accounts for the customers,
- paying cheques drawn on him/her, and
- collecting cheques for the customers.

In most common law jurisdictions, there is a Bills of Exchange Act that encode the law in relation to negotiable instruments, including cheques, and this Act encloses a statutory definition of the term banker: banker involves a body of persons, whether incorporated or not, who carry on the business of banking' (Section 2, Interpretation). Although this definition seems spherical, it is actually efficient, because it guarantees that the legal basis for bank transactions such as cheques does not depend on how the bank is organized or regulated.

The business of banking is in many English common law countries not explained by decree but by common law, the definition above. In other English common law jurisdictions there are statutory definitions of the business of banking or banking business. When looking at these definitions it is important to keep in mind that they are explaining the business of banking for the rationale of the legislation, and not necessarily in common. In particular, most of the definitions are from legislation that has the rationale of entry regulating and supervising banks rather than regulating the real business of banking. Nevertheless, in many cases, the statutory definitions closely reflect the general law one. Examples of statutory definitions:

- "banking business" means the business of receiving money on current or deposit account, paying and collecting cheques drawn by or paid in by customers, the making of advances to customers, and involves such other business as the Authority may prescribe for the purposes of this Act; (Banking Act (Singapore), Section 2, Interpretation).
- "banking business" means the business of either or both of the following:
 1. receiving from the usual public fund on current, deposit, savings or other similar account payable on claim or within less than three months or with a time of call or notice of less than that period;
 2. making payments or collecting checks drawn by or paid in by clients.

As the arrival of EFTPOS, Electronic Funds Transfer at Point Of Sale, direct credit, direct debit and internet banking, the cheque has lose its dominance in the majority banking systems as a payment instrument. This has led legal philosopher to suggest that the cheque based definition should be widen to involve financial institutions that carry out current accounts for clients and facilitate clients to pay and be paid by third parties, even if they do not pay and

collect cheques.

3.3 History

Banking in the contemporary sense of the word can be outlined to medieval and early revitalization Italy, to the wealthy cities in the north like Florence, Lucca, Siena, Venice and Genoa. The Bardi and Peruzzi families ruled banking in 14th century Florence, set up branches in various other areas of Europe. One of the most well-known Italian banks was the Medici Bank, set up by Giovanni di Bicci de' Medici in 1397. The earlier known state deposit bank, Banco di San Giorgio (Bank of St. George), was established in 1407 at Genoa, Italy.

Origin of the word

The term bank came in Middle English from Middle French banque, from Old Italian banca, from Old High German banc, bank "bench, counter". Benches were utilized as counters or exchange counters during the revitalization by Florentine bankers, who used to make their business a top desks covered by green tablecloths. One of the oldest articles found showing money-changing activity is a silver Greek drachm coin from ancient Hellenic colony Trapezus on the Black Sea, modern Trabzon, there in the British Museum in London. The coin shows a banker's table, trapeze, burdened with currency, a witticism on the name of the town. In fact, even today in contemporary Greek the word Trapeza means both a table and a bank.

An additional, possible origin of the word is from the Sanskrit words 'byaya' (expense) and 'onka' (calculation) = byaya-onka. These words still endure in Bangla, which is one of Sanskrit's own language. Such expenditure estimation was the biggest part of arithmetical dissertation written by Indian mathematician as early as 500 B.C.

4. Banking

4.1 Standard activities

Banks operate as payment mediators by conducting checking or current accounts for clients, paying cheques drawn by customers on the bank, and collecting cheques deposited to customers' current accounts. Banks also facilitate client payments via other payment methods such as Automated Clearing House (ACH), Wire transfers or telegraphic transfer, EFTPOS, and automated teller machine (ATM).

Banks have access to money by accepting funds deposited on current accounts, by accepting term deposits, and by issuing debt securities such as banknotes and bonds. Banks loan money by making advances to clients on current accounts, by making installment loans, and by

investing in marketable debt securities and other forms of fund lending.

Banks give different payment services, and a bank account is considered crucial by most business and persons. Non-banks that give payment services such as transfer of funds companies are normally not considered as a sufficient alternate for a bank account.

4.2 Channels

Banks tender various diverse channels to avail their banking and other services:

- Automated Teller Machines
- A branch is a retail location
- Call center
- Mail: many banks take cheque deposits through mail and apply mail to converse to their clients, e.g. by sending out proclamation
- Mobile banking is a technique of using one's mobile phone to carry out banking transactions
- Online banking is a term used for performing numerous transactions, payments etc. through the Internet
- Relationship Managers, mostly for private banking or business banking, frequently visit clients at their home or business.
- Telephone banking is a service which permits its clients to carry out operation over the telephone with automated assistant or when requested with telephone operator
- Video banking is a term used for executing banking transactions or professional banking consultations via a remote video and audio connection. Video banking can be act upon through the rationale built banking transaction machines, similar to an Automated teller machine, or through a video conference facilitated bank branch clarification.

4.3 Business model

A bank can create returns in a diversity of diverse traditions involving interest, operation fees and financial assistance. The core technique is through charging interest on the resources it provides out to the clients. The bank make revenue from the difference between the level of interest it pays for deposits and other sources of funds, and the stage of interest it charges in its lending activities. This difference is referred to as the broader between the expenditure of funds and the loan interest rate.

Conventionally, abundance from lending activities has been recurring and reliant on the needs and strengths of loan clients and the phase of the economic cycle. Fees and financial assistance make a more steady returns stream and banks have consequently placed more prominence on these returns lines to even their financial presentation. In the past 20 years American banks have adopted various procedures to make sure that they stay lucrative while reacting to progressively more varying market circumstances. First, this involves the Gramm-Leach-Bliley Act, which permits banks again to unite with investment and insurance houses. Merging banking, investment, and insurance functions permits conventional banks to act in response to increasing client demands for "one-stop shopping" by making possible cross-selling of products, which, the banks hope, will also enlarge productivity.

Second, they have enlarged the use of risk-based pricing from business lending to clients lending, which means incriminating higher interest rates to those clients that are considered to be a higher credit risk and thus, increased chance of non-payment on loans. This aids to counterbalance the loss from bad loans, lowers the cost of loans to those who have good credit histories, and offers credit products to high risk clients who would otherwise be refused credit.

Third, they have required enlarging the system of payment processing accessible to the wide-ranging public and business clients. These products involve debit cards, prepaid cards, smart cards, and credit cards. They make it easier for clients to expediently create transactions and smooth their expenditure over time, in some countries with undersized financial systems; it is still ordinary to deal firmly in cash, involving carrying suitcases filled with cash to purchase a home.

Nevertheless, with handiness of easy credit, there is also enlarged risk that clients will manage badly their financial resources and collect extreme debt. Banks build funds from card products through interest payments and fees charged to clients and transaction fees to companies that accept the credit- debit - cards. This assists in making earnings and make possible economic development as a whole.

4.4 Products

- Retail banking
- Checking account
- Savings account

- Money market account
- Certificate of deposit (CD)
- Individual retirement account (IRA)
- Credit card
- Debit card
- Mortgage
- Home equity loan
- Mutual fund
- Personal loan
- Time deposits
- ATM card
- Current Accounts

Business (or commercial/investment) banking

- Business loan
- Capital raising (Equity / Debt / Hybrids)
- Mezzanine finance
- Project finance
- Revolving credit
- Risk management (FX, interest rates, commodities, derivatives)
- Term loan
- Cash Management Services (Lock box, Remote Deposit Capture, Merchant Processing)

3.5 Risk and capital

Banks counter a number of risks in order to accomplish its business, and how well these risks are managed and understood is a chief force behind productivity, and how much resources a bank is required to maintain. Some of the foremost risks encountered by banks include:

Credit risk: It is a risk of loss occurring from a borrower who does not make payments as assured.

Liquidity risk: It is a risk that a agreed security or asset cannot be traded quickly enough in the market to prevent a loss or make the required revenue.

Market risk: It is a risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decline due to the alteration in value of the market risk aspects.

Operational risk: It is a risk taking place from implementation of a company's business

operations.

Reputational risk: It is a kind of risk associated to the reliability of the business.

Macroeconomic risk: It is a risk interconnected to the comprehensive economy the bank is functioning in.

The fund prerequisite is a bank regulation, which sets a framework on how banks and depository institutions must handle their funds. The classification of assets and capital is vastly homogeneous so that it can be risk weighted.

4.6 Banks in the economy

Economic functions

The economic functions of banks include:

- **Issue of money**, in the form of banknotes and current accounts subject to cheque or payment at the customer's order. These claims on banks can act as money because they are negotiable or repayable on demand, and hence valued at par. They are efficiently manageable by only delivery, in the case of banknotes, or by drawing a cheque that the payee may bank or cash.
- **Netting and settlement of payments** – banks act as both collection and paying mediators for clients, taking part in interbank clearing and settlement structure to collect, present, be presented with, and disburse payment instruments. This allows banks to economize on reserves held for settlement of payments, since inward and outward payments compensate each other. It also enables the compensating the payment flows between geographical areas, dropping the cost of settlement between them.
- **Credit intermediation** – banks borrow and lend back-to-back on their own account as mediators.
- **Credit quality improvement** – Banks lend money to regular commercial and personal borrowers, but are high quality borrowers. The enhancement comes from diversification of the bank's assets and funds which provides a safeguard to take up losses without failure to pay on its obligations. On the other hand, banknotes and deposits are normally unsecured; if the bank faces any difficulty and pledges assets as security, to raise the funding it needs to continue to function, this puts the note holders and depositors in a cost-effectively subordinated situation.
- **Asset liability mismatch/Maturity transformation** – Banks borrow further on demand debt and short term debt, but give more long term loans. In other words, they

borrow short and lend long. With a stronger credit quality than most other borrowers, banks can do this by comprehensive issues e.g. accepting deposits and issuing banknotes and redemptions e.g. withdrawals and redemption of banknotes, keeping reserves of cash, investing in marketable securities that can be readily transformed to cash if needed, and raising replacement capital as needed from various sources e.g. wholesale cash markets and securities markets.

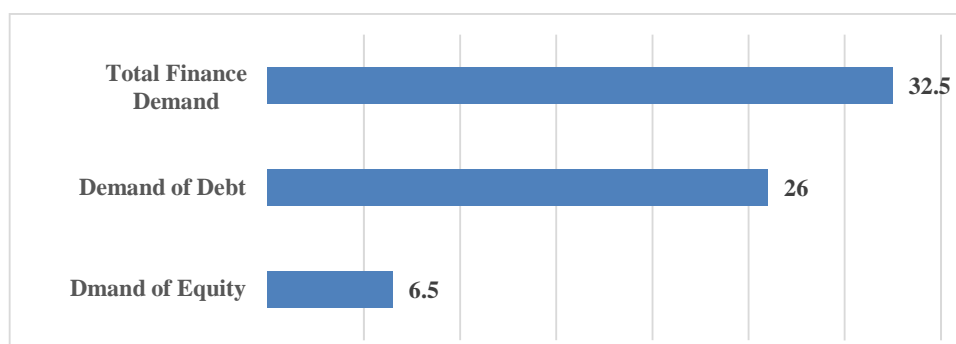
- **Money creation** – whenever a bank gives a loan in a fractional-reserve banking system, a fresh sum of virtual fund is generated.

5. Demand for Finance by Entrepreneurs:

5.1 Introduction:

The overall demand for finance in the marginal entrepreneurs segment is probable to be INR 32.5 trillion. The common of finance demand from these enterprises is in the form of debt, expected at approximately INR 26 trillion. Total demand for equity in the marginal entrepreneurs segment is INR 6.5 trillion, which makes up 20 percent of the overall demand. The segment has high leverage ratios with average debt- equity ratio of 4:1. But these leverage ratios are not even across the segment and disparities exist based on the size of the enterprise. For example medium-scale enterprises display a more balanced debt-equity ratio of 2:1. The unregistered enterprises, which comprise 94% of the marginal entrepreneurs, account for INR 30 trillion of the finance demand. This demand approximation does not take into account the demand for finance by unorganized enterprises.

Figure 1.3 Overall Finance Demand in MSME Sector (in INR Trillion)



Source: MSME Census, SIDBI, IFC-Intellcap Analysis

5.2 Debt Demand:

Financial institutions have traditionally restricted their exposure to the sector due to the

perception that these businesses carry high risk and high cost of delivery, and have limited access to immovable collateral. While, the overall debt demand in the segment is expected to be Rs. 26 trillion, but not all of it can be met instantaneously by the formal financial sector due to some reasons. Proportion of such demand is estimated at 37%, in addition, nearly 25% of the total projected demand is from micro enterprises that prefer debt from the informal sector rather than formal. Table 1.9 provides the exclusions from overall debt demand and their share of the total debt demand.

Table 1.9 Exclusions from Overall Debt Demand

Type of enterprise	Share of debt demand (%)
Sick enterprise in evasion	13%
New enterprises with less than one year of actions	23%
Portion of enterprises rejected by official financial institutions	1%
Controlled exclusions of micro services sector enterprise Segment	25%
Total	62%
Source: IFC-Intellcap Analysis	

It is clear from the above that almost 38% of the overall debt demand is not viable and addressable as it comprises enterprises that are sick, or with limited operational history, or undergo from poor financial health. A large number of micro services enterprises such as small retail trade and repair shops account for 25% of the debt demand. These enterprises choose casual sources to the prescribed financial institutions due to the ease of access, speed of disbursement and need for insignificant documentation.

Moreover, the earnestness of demand for finance often outsource the cost difference between the two sources. Based on the above exclusions, it is expected that of the total debt demand of INR 26 trillion, at least 38% of INR 9.9 trillion is the size of the feasible demand that can be addressed by the prescribed financial sector in the near term. Nearly 90% of the total feasible and addressable debt demand is from unregistered enterprises, and the balanced demand of INR 1 trillion is from registered marginal entrepreneurs.

What is interesting though is that registration of enterprises in no way influences the access to finance from recognized financial institutions. Of the total feasible and addressable debt demand of the marginal entrepreneurs, the working capital prerequisite is the biggest, projected to account for approximately 61% of the total need.

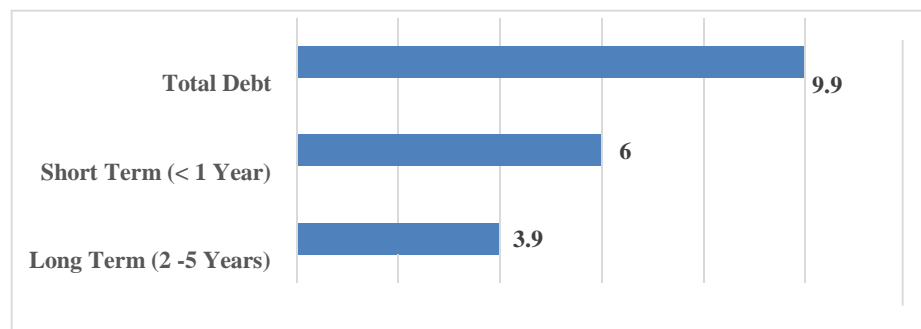
Analysis of a typical marginal entrepreneur's balance sheet and available financial data

verifies the fact. Current asset account for 74% balance sheet growing year on year, while capital expenditure accounts for only 26% of the growing, clearly demonstrating critical role of working capital finance in the functioning and growth of MSMEs.

5.2.1 Debt Demand by Size of Enterprise:

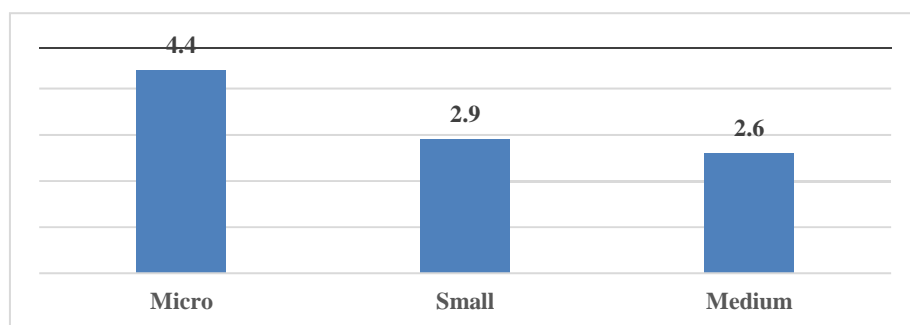
Of the total INR 9.9 trillion (\$198 billion) of viable debt demand that can be addressed by financial institutions in the near term, the micro, small, and medium enterprise segments respectively account for INR 4.4 trillion (\$88 Billion), INR 2.9 trillion (\$58 billion) and INR 2.6 trillion (\$52 billion). The micro and small enterprises sub-segments together account for 74% of this debt demand, and hence form the focus of the priority sector lending norms.

Figure 1.4 Viable and Addressable Working Capital and Capital Expenditure Demand (in INR Trillion)



Source: MSME Census, SIDBI, Primary Research, IFC Intellcap Analysis

Figure 1.5 Viable and Addressable Debt Demand in MSME Segment (In INR Trillion)



Source: MSME Census, SIDBI, IFC Intellcap Analysis

Micro Enterprise Segment: Micro enterprises mostly operate in order-driven industries such as retail trade, repair and maintenance, restaurants and textiles among others, and have a significant working capital demand. Following characteristics are noteworthy:

- Analysis of the viable and addressable debt demand indicates that at least 10.6 million micro enterprises constitute a viable financing segment for formal financial institutions in the near term.
- Primary research done by IFC – Intellcap shows that the average credit requirement of a micro enterprises across manufacturing and services is estimated to be INR 0.3 million – INR 0.4 million (\$6,000 –\$8,000).
- Most of these enterprises largely transact in cash, and hence do not have accurately recorded financials, making it difficult for financial institutions to assess their creditworthiness.
- Micro enterprises are also characterized with limited access to both immovable and movable collateral, while the majority of financial institutions prefer collateral-based financing as a risk mitigate. These enterprises are mostly centered on entrepreneurs alone, which makes them vulnerable because micro- entrepreneurs have often had limited training in resource planning and are not always aware of all the potential financing avenues available.

Small Enterprise Segment: Small enterprises require higher capital investments and tend to operate in value-add manufacturing and knowledge-based service industries. Entrepreneurs who run small enterprises have a relatively better knowledge of external sources of finance. Some key facts about this segment are:

- Estimates indicate that 0.7 million small enterprises are viable for financing and addressable by formal financial institutions in the near term. The average credit requirement of a small enterprise across manufacturing and services industries is estimated to be INR 4 million – INR 4.5 Million (\$80,000 – 90,000). With limited access to immovable collateral or assets, small enterprises especially in knowledge-based industries, are handicapped in their ability to access adequate debt from formal financial institutions.
- Although mature small enterprises, particularly knowledge-based enterprises, tend to use bank instruments for most of their business transactions, cash continues to be preferred across the overall small segment as entrepreneurs have limited incentive to maintain financial records. Lack of financial documentation further increases the challenge of accessing finance from formal financial institutions.

- Small enterprises access finance from both formal and informal sources, but in case of formal sources, these units tend to have relationships with 1-2 financial institutions.

Medium Enterprise Segment: Unlike micro and small enterprises, medium enterprises exhibit a more predictable demand for debt, and these units are able to access multiple sources of capital. Businesses in the segment are typically structured as limited companies that allow for infusion of alternative forms of capital such as equity. In addition, predictable cash flows and a formal structure, allows medium enterprises to choose formal financial institutions as their preferred financiers.

The study estimates that 0.05 million medium enterprises can be served by the formal financial institutions. Some of the characteristic aspects about the segment are:

- The average credit requirement of a medium enterprise across manufacturing and services industries is in the range of INR 40 million – INR 55 million (\$0.8 – 1.1 million).
- Medium-sized enterprises are professionally managed and hence depend a lot less on the entrepreneur for management of day-to-day operations, allowing him to explore broader aspects like financing from multiple sources.
- The financial history of these enterprises tends to be traceable. Coupled with high average value of financial transactions, these enterprises are able to access financial services more easily, forming financial relationships with multiple financial institutions.

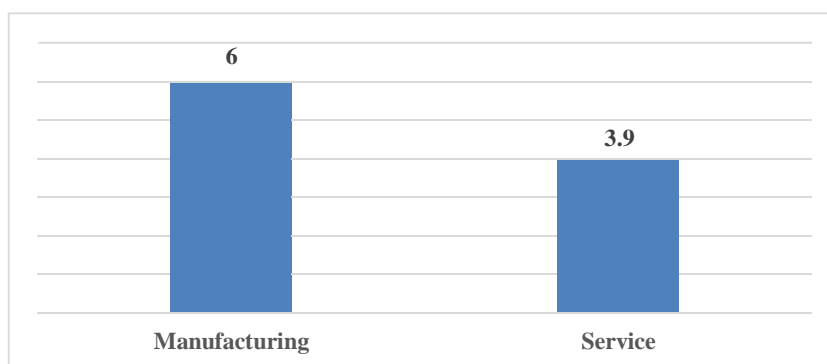
5.2.2 Debt Demand by Type of Enterprise:

The manufacturing sector accounts for 61% of the viable debt demand that can be addressed by formal financial institutions in the near term, whereas the services sector accounts for the balance 39%. Accordingly, the share of manufacturing and services in the viable debt demand that can be addressed by financial institutions in the near term is INR 6 trillion (\$120 billion) and INR 3.9 trillion (\$78 billion) respectively.

Manufacturing Sector: Although the manufacturing sector accounts for a smaller share of enterprises, operations are more capital-intensive, as a result of which working capital requirement tends to be higher in the manufacturing sector than that in the services sector. Some of the features of finance needs of manufacturing MSMEs are:

- The average requirement for capital expenditure in manufacturing enterprises is estimated to be INR 0.5 million (\$10,000) per year.
- The demand for working capital in the manufacturing sector is driven primarily by enterprises that tend to operate with significant amount of trade finance. Additionally, lower operating margins, coupled with inefficient utilization of capital in this sector, increase the average demand for finance.
- At over 100 days, working capital cycles in the manufacturing sector are typically quite long because of which average working capital requirements also tend to be higher (estimated to be INR 1.2 million; \$24,000). As a result, working capital accounts for an estimated 70 percent of the total debt demand from the manufacturing sector.

Figure 1.6 Viable and Addressable Debt Demand in Manufacturing and Services Sectors (in INR Trillion)



Source: MSME Census, SIDBI, IFC – Intellcap Analysis

- Enterprises that feed large supply chains are known to experience longer working capital cycles as payment cycles are unpredictable and depend on many players within the supply chain, resulting in higher working capital demand.
- Export-oriented enterprises are particularly vulnerable to currency exchange rate fluctuation. In case of adverse currency movement, the working capital needs of the enterprises increase.
- MSMEs that feed local consumer markets usually transact with other MSMEs in retail trade. Typically, retailers provide goods on consignment basis, which carries the uncertainty with regard to the timing of sales and subsequent payments. All this increases the need for working capital finance to continue production.

Service Sector: Service industries such as retail trade, repair and maintenance, and restaurants are typically cash businesses with shorter turnaround, because of which their overall external capital requirements tend to be low on an average.

On the other hand, there are knowledge-based services industries such as software development and management consulting within the services sector, the finance requirements of which are similar to that of manufacturing industries i.e. higher working capital and capital expenditure requirements. Some characteristic traits of the demand of services enterprises are:

- The share of working capital as a portion of the average debt demand for services enterprises is estimated to be 41%.
- Services enterprises require less external capital on an on-going basis, except for such things as work premises renovation, purchase and refurbishment of equipment. They do, however, need significant capital support during the start-up stage.
- Given the nature of most of these enterprises, they have limited access to immovable collateral which makes access to formal finance challenging.
- Knowledge-based enterprises require working capital for primarily investing in people. For this, businesses either depend on internal accruals or internal equity investments, as debt from formal financial institutions for financing of man power costs remains a challenge.

5.3 Equity Demand:

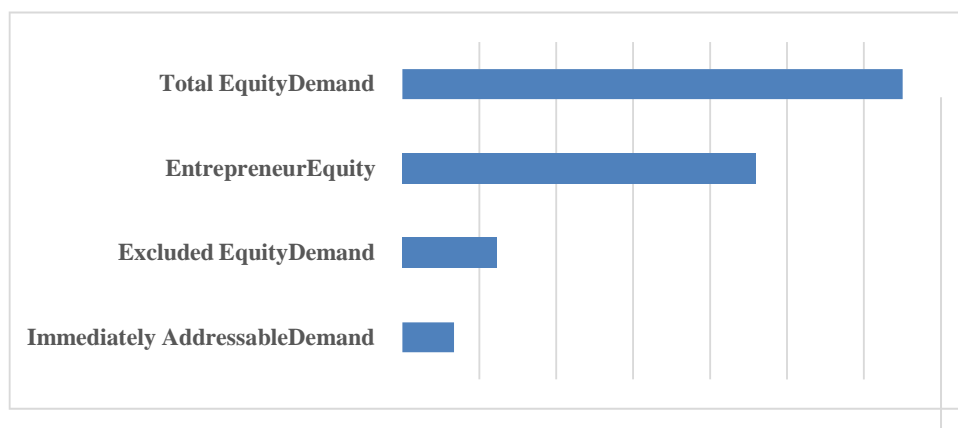
The overall equity demand in the sector is estimated to be INR 6.5 trillion (\$130 billion), with short-term equity requirement accounting for INR 4 trillion (\$80 billion), and long-term equity making up a demand of INR 2.5 trillion (\$50 billion).

Analysis of financing patterns in the MSME sector suggests that enterprises use internal accruals and informal sources to finance the short-term equity demand (INR 4 trillion; \$80 billion) and 25 percent of the long-term equity demand (INR 0.6 trillion or \$12 billion).

Excluding entrepreneurs' equity contribution (internal accruals and informal sources), the equity demand from external sources is estimated to be INR 1.9 trillion (\$38 billion). However, all the equity demand may not be viable and addressable as 95.7 percent of enterprises are structured as either proprietorships or partnerships that are not amenable to external equity infusion. In the estimation, all the micro enterprises and a section of small enterprises are assumed to be structured as either proprietorships or partnerships. Excluding

the equity demand totaling INR 1.23 trillion (\$24.6 billion) from proprietorship and partnership enterprises, the viable and addressable equity demand is estimated to be INR 0.67 trillion (\$13.4billion).

Figure 1.7 Viable and Addressable Equity Demand in MSME Sector (inINRtrillion)



Source: MSME Census, SIDBI, Primary Research, IFC Intellcap Analysis

5.3.1 Small Size of Equity Investment in the Sector:

Based on the analysis of the typical capital structure of enterprises, the overall equity demand in the sector ranges from INR 0.1 million (\$2,000) for micro enterprises to INR 24 million (\$0.48 million) for medium enterprises. Excluding the entrepreneur’s contribution towards short-term and long-term financing, the average investment sizes tend to be much lower.

- Micro and small enterprises have limited access to external equity primarily because only a handful of players provide early-stage equity capital. Even if the equity were made available, the uptake would remain low due to: (a) legal structure of enterprises that prevent infusion of external equity; (b) low level of willingness and ability of entrepreneurs to manage formal sources of equity capital; and (c) entrepreneur’s concern regarding control and management. However, the equity demand from small enterprises that have legal structures other than proprietorship and partnership is considered as viable and addressable in the near term. Such demand is estimated to be of the order of INR 0.26 million (\$5.2billion).
- Medium-scale enterprises demonstrate a more balanced debt-equity ratio with estimates of around 2:1 leverage. This is due to the increased ability of the entrepreneur to contribute capital, a more amenable legal structure and the presence of business models that are scalable. The viable and addressable equity demand for medium enterprises is estimated to be INR 0.41 trillion (\$8.2billion).

Table 1.10 Range of Equity Investment Size (in INR Million)

Enterprise	Average Investment Size
Micro	0.04 – 0.05
Small	0.3 – 0.5
Medium	7 - 10

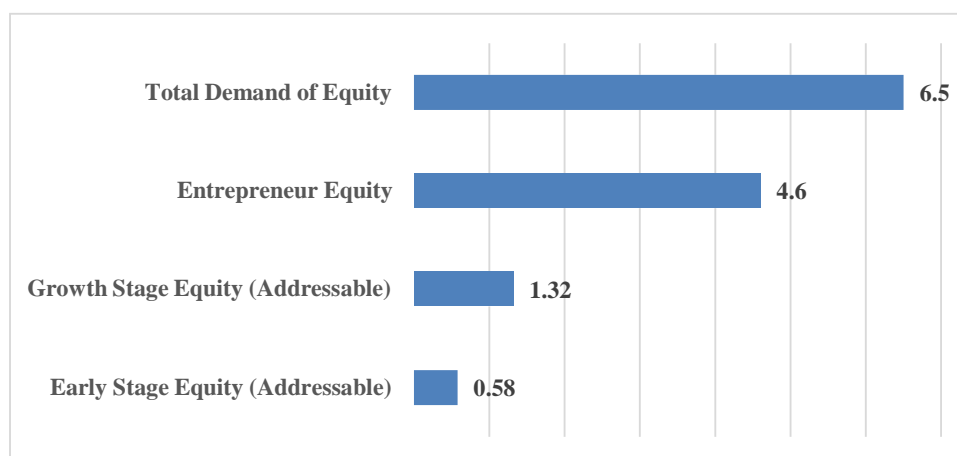
Source: IFC – Intelicap Analysis

Smaller investment sizes per enterprise tend to increase the transaction cost and management cost for equity investors, making this segment relatively less attractive.

5.3.2 Equity Demand in Early Stage and Growth Stage Enterprises:

Early stage enterprises are defined as those that have an operational history of one year or less. Analysis suggests that these enterprises account for 23% of the overall long term equity demand. As can be seen in figure 1.8 below, that demand is estimated at INR 0.58 trillion (\$ 11.6 billion). The balance equity demand, after excluding early stage equity, comprises an estimated INR 1.32 trillion (\$ 26.4 billion) as growth stage equity.

Figure 1.8 Equity Demand Early and Growth Stages in MSME Sector (in INR Trillion)



Source: MSME Census, SIDBI, IFC-Intelicap Analysis

5.3.3 Challenges for Enterprises in Equity Infusion:

The ability of an enterprise to accept external equity depends on its legal structure. Limited companies and limited liability partnerships allow investors to infuse external equity into the

enterprise to the extent their liability is limited to their respective shareholding. Other legal forms such as proprietorship and partnership transfer unlimited liability to the equity investor, hence discouraging equity infusion in such enterprises.

An overwhelming 95.7% of MSMEs in India are proprietorships or partnerships and as a result, are unable to attract external equity. While change in the legal form of an enterprise to limited company or limited liability partnership is an option, it entails taxation and compliance overheads for the enterprises, often rendering the business model financially unviable. In addition, many entrepreneurs have limited awareness of alternative sources of finance; hence the benefits of changing their legal structures are not always obvious. In the absence of external equity, entrepreneurs use informal sources (usually debt) to meet the needs of their enterprise.

Equity investors require transparency in both financial record-keeping and governance. As a result, it is mostly the medium enterprises and mature small enterprises which are able to keep their financials transparent, and tend to attract more equity investors. Also, the legal structure of medium and mature small enterprises allows for infusion of external equity.

5.4 Non addressable Finance Demand in the MSME Sector:

While the viable and addressable debt and equity demand presents a significant opportunity for formal financial institutions, the potential size of the MSME finance market can be further increased by gradually transforming some components of the currently non-addressable demand into demand that financial institutions would consider viable.

The current non-addressable demand comprises

- (a) In the debt market – new enterprises, sick enterprises, voluntary exclusions and enterprises with poor financial records, and
- (b) In the equity market – micro and small enterprises that have legal structures such as proprietorship and partnership. Considerable efforts by way of policy and building market and business models are required to gradually transform the above demand and make it financially viable.

Some of the interventions that can help transition the MSMEs into lucrative financing opportunities for the financial sector include:

- (a) Increasing awareness among entrepreneurs about how access to formal sources of

finance can benefit the growth of their business,

(b) incentivizing entrepreneurs to increase financial transparency and plan their financial requirements better,

(c) creating an effective policy environment to revive sick enterprises and make them financially viable,

(d) providing incubation support to early-stage enterprises and,

(e) increasing the enterprise knowledge on various low-overhead legal structures available to them.

Expansion in the level of formal finance to the MSME sector could unlock enormous potential for the sector's growth and corresponding contribution to GDP.

6. Flow of Finance to the Marginal Entrepreneurs Sector:

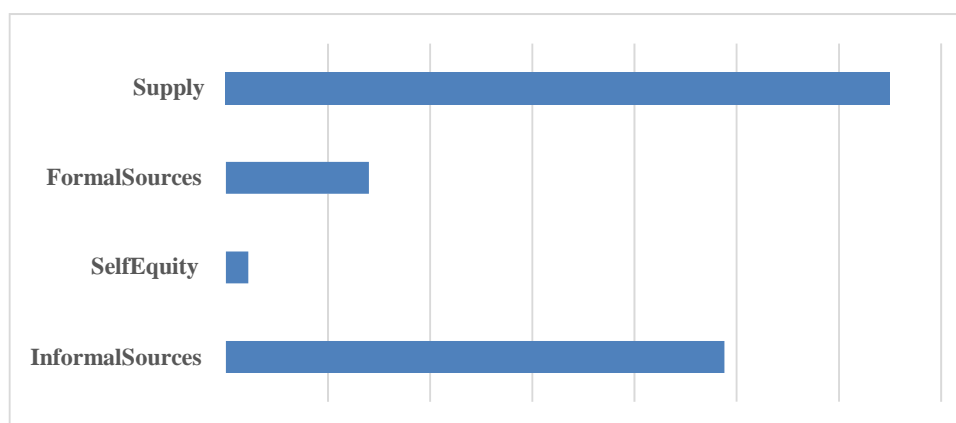
6.1 Introduction:

Working with the assumption that all finance demand by the sector is met by either formal or informal sources, the estimate for overall supply of finance to the sector is also INR 32.5 trillion (\$650 billion).

This comprises informal finance, self-finance and finance from the formal financial sector. However, what is characteristic of the finance flow is that informal sources and self-finance together make up most of the finance channeled into the sector. An estimated INR 25.5 trillion (\$510 billion), or nearly 78% of the sector's debt demand, is fed by these two sources, while formal sources cater to just over 22% of the demand at INR 7 trillion (\$140 billion). Formal sources of finance, i.e. banks and non-banking institutions, account for INR 6.97 trillion (\$139.4 billion) of the overall formal finance supply, and commercial banks are the largest formal sources of finance, primarily providing debt capital to the MSMEs:

- The study estimates that the supply of formal equity to the sector is INR 0.03 trillion (\$0.6 billion)
- The study estimates that informal sources account for an estimated INR 24.4 trillion (\$488 billion) in finance to the sector. Informal sources include both institutional sources such as moneylenders and chit funds, and non-institutional sources such as family, friends, and family business
- In addition, entrepreneurs also leverage personal resources and contribute equity to the enterprise. Self-equity contributions are estimated to account for INR 1.1 trillion (\$22 billion) of finance flow into the sector.

Figure 1.9 Supply of Finance to the MSME Sector (in INR Trillion)



Source: RBI, SIDBI, SME Times 2010, IFC – Intellcap Analysis

6.2 Flow of Marginal entrepreneur Debt Finance from the Informal Sector:

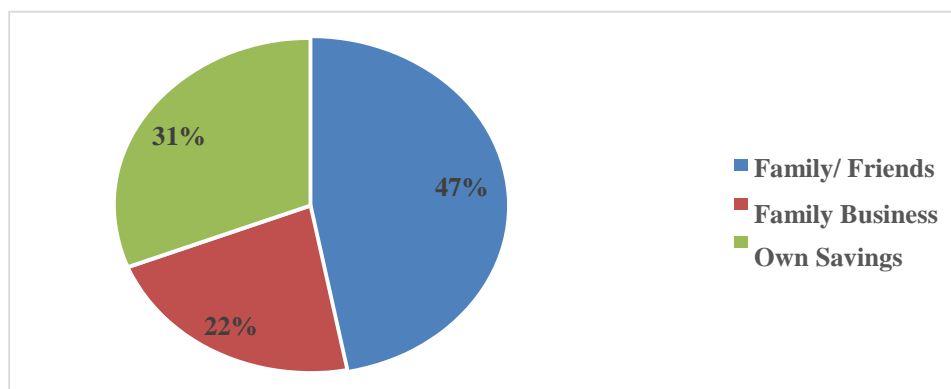
Informal finance dominates the sector and 95% of it comes from non-institutional sources. The study estimates that these sources such as family, friends, and family business together account for INR 23.2 trillion (\$464 billion) of the informal finance to the MSME sector.

- Financial transactions with non-institutional informal sources are typically in the form of debt; these transactions are not bound by any contractual agreement, and the repayment terms are mutually agreed.

Typical repayment terms include bullet payment of principal and regular interest payments. Due to the non-contractual nature of transactions, many micro enterprises prefer informal sources over formal sources despite the relative higher rates of interest.

- Non-institutional lenders typically do not insist on any immovable collateral. Instead such sources tend to rely on personal reputation or social collateral to hedge repayment risk, making it easier for enterprises to access informal finance.
- Costs of funds from such sources tend to vary from 1% per month to 5% per month

Figure 1.10 Share of Non institutional Informal Sources of Finance



Source: Report on Entrepreneurship in India, National Knowledge Commission

Institutional informal sources such as registered trade credit, chit funds and moneylenders channel an estimated INR 1.2 trillion (\$24 billion) of finance into the MSME sector. Unlike in the case of non-institutional informal sources, transactions with institutional informal sources are bound by legal contracts.

- Institutional informal sources also provide financing in the form of debt on the basis of mutually agreed terms of repayment or transactions that are documented in the contract. Repayment cycles are typically in the form of bullet payments as well as daily, weekly or monthly installments of interest.
- Studies suggest that trade-credit accounts for 30-40% of the working capital finance in the MSME sector. While trade credit plays an important role in working capital finance, longer debt cycles often offset any advantage that such financing has to offer.
- As with other informal sources of finance, institutional informal sources typically do not insist on any immovable collateral. Inclusion of individuals in such community-based finance institutions is based on referrals, and personal reputation is used in lieu of collateral.
- Enterprises also avail finance from community institutions such as chit funds. The size of the organized chit funds market in India is estimated to be INR 0.3 trillion (USD 6 billion). Chit funds offer flexible repayment options and on-demand finance with limited or no collateral.
- Although the cost of funds from informal sources tends to be high, timely disbursement and shorter turnaround times make them more attractive sources of finance, particularly for micro and small enterprises.

Table 1.11 Cost of Funds in Selected Institutional Informal Sources

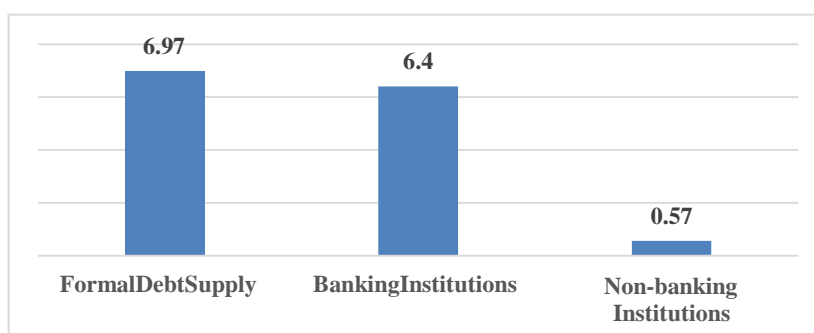
Source	Cost of Funds (per month)
Registered Chit Funds	0.5% - 3.5%
Unregistered Chit Funds	1% - 2%
Registered Moneylenders	1% - 10%

Source: IFMR, All India Association of Chit Funds, IFC – Intellcap Analysis

6.3 Flow of marginal entrepreneurs Debt Finance from the Formal Financial Sector

The MSME sector receives INR 6.97 trillion (\$139.4 billion) debt from banking and non-banking institutions. Banks and government financing agencies constitute the largest share of formal debt to the MSME sector, and are estimated to provide INR 6.4 trillion (\$128 billion) to these enterprises. The balance INR 0.57 trillion (\$11.4 billion) of formal debt is supplied by non-banking finance companies (NBFCs). Unlike in many developing countries in Latin America where large banks are down-scaling to serve the Small and Medium Enterprise (SME) market, in India large banks have been the largest formal source of finance to MSMEs for decades. Figure 1.11 exhibits the structure of formal debt supply to the sector.

Figure 1.11 Structure of Formal Debt Supply to the MSME Sector (in IN trillion)



Source: RBI, SIDBI, Sa-Dhan, Annual Report of NBFCs, IFC-Intellcap Analysis

Although banks have a higher risk perception of the MSME sector, they continue to be the key players in formal financing. The higher share of bank supply can be attributed primarily to Priority Sector Lending (PSL) guidelines set by the Reserve Bank of India (RBI) that require banks to supply debt to priority sectors such as agriculture, micro and small enterprises. Some key focus areas of PSL, with regard to the MSME sector are:

- PSL guidelines require banks to allocate sizeable share of their credit portfolio to micro and small enterprises. The existing PSL guidelines have set targets (i.e. share

of credit portfolio) for micro and small enterprises financing. The Nair Committee Report (February 2012) on Priority Sector Lending (February 2012) has recommended that all domestic and foreign banks allocate 7% of their credit portfolio solely for financing microenterprises.

- The Nair Committee has also recommended that foreign banks should have priority sector commitment of 40% of Annual Net Bank Credit (ANBC), with a sub-target for the micro and small enterprise sector at 15 percent of ANBC. If implemented, this policy is expected to have a significantly positive impact on the participation of foreign banks in the MSME finance over the medium term.

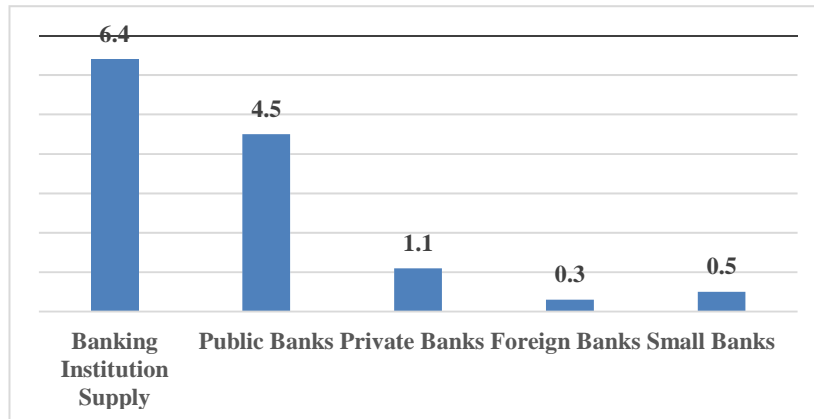
With continuous policy focus on financing to micro and small enterprises, the share of large banks in the MSME finance landscape is also expected to grow in the future. NBFCs, unlike banks, are not required to comply with the PSL guidelines. However their participation in the MSME sector is driven to a large extent by unmet finance demand of these enterprises, and the ability of NBFCs to develop innovative financial products and deliver finance in a cost – effective manner, with greater flexibility and quicker turnaround times.

In order to encourage banks to increase their direct lending to the MSME sector, an RBI regulation in April 2011 excluded loans sanctioned by banks to NBFCs for on- lending to micro and small enterprises from priority sector targets. However, the Nair Committee Report has recommended that commercial bank loans to NBFCs for on- lending to specified segments may be considered for classification under priority sector, up to a maximum of 5 percent of ANBC, subject to certain due diligence and documentation standards. Although the new recommendations allow a small window for indirect lending, there are other attractive priority sector segments, such a microfinance, that are also struggling for the same pool of funds. Hence, it is not clear if these recommendations will specifically increase indirect financing for the MSMEs via NBFCs.

6.3.1 Breakdown of Debt Flow by Type of Financial Institutes

As already highlighted, scheduled commercial banks account for 92% of formal debt flow to the MSME sector. Scheduled commercial banks comprising public banks, private banks and foreign banks supply INR 5.9 trillion (\$118 billion) debt, while smaller banks such as Regional Rural Banks (RRBs), Urban Cooperative Banks (UCBs) and government financial institutions such as State Financial Corporation (SFCs) and State Industrial Development Corporations provide INR 0.5 trillion (\$10 billion) as debt finance.

Figure 1.12 Structure of Banking Institution Supply to the MSME Sector (in INR Trillion)



Source: RBI, SIDBI, Sa-Dhan, Annual Report of NBFCs, SME Times 2010, IFC-Intellcap Analysis

Analysis of the MSME credit portfolios of banks suggests that all bank groups do not contribute equally to the overall MSME sector.

- Data from RBI suggests that public banks account for 70 percent (INR 4.5trillion; \$90 billion) of the banking debt to the MSME sector, while the private and foreign banks account for 22 percent (INR 1.4 trillion; \$28 billion), and small banks such as regional rural banks, urban co-operative banks account for 8 percent (INR 0.5 trillion; \$10 billion) of banking finance.
- The study estimates that commercial banks serve an estimated 8.4 million – 8.5 million MSMEs ; financial institutions such as small banks, NBFCs, MFIs and others, serve the balance MSMEs receiving formal finance. The above estimates take into account the fact that medium and small enterprises may have multiple banking relationships.
- This estimate is considerably higher than that of the MSME Census 2007 on the number of enterprises served, however it builds on the RBI data available on the total number of micro and small enterprise accounts currently served, and the average credit disbursed per enterprise. Public banks serve the largest section, an estimated 6.9 million MSMEs, while other banking institutions serve an estimated 1.5 – 1.6 million units.

The reason for the variance in the banks’ share in MSME debt finance is because of the inherent differences in: (a) knowledge of the MSME sector (b) size of the branch network

(c) internal risk management policies and (d) operational efficiencies. These characteristics also determine the type of enterprise banks prefer to finance, the risk segment or pricing range for financial products, targeting mechanism and outreach strategy.

Scheduled Commercial Banks: Public Banks have a better access to MSMEs, and take the lead in lending to the sector, as compared to private and foreign Banks. Public banks have considerable empirical knowledge of the MSME sector, and with the increased use of core banking technology, they are able to analyze historical data on MSMEs to develop targeted products and better risk management techniques.

The extensive branch network of public banks provides unparalleled outreach across the country public banks account for 64.1% of the total bank branches in the country, providing them with a distinct advantage in terms of reach to the MSME segment. Private and foreign banks on the other hand have a limited branch network, and tend to target MSMEs in the vicinity of existing branches, or deploy third party agencies to increase outreach. In order to manage cost of transactions, banks prefer to finance mature small enterprises that have larger credit requirement as compared to micro enterprises.

Table 1.12 Statistics on Branch Network

Type of Bank	Number of Branches	Share (%)
Public Banks	55,438	64.1%
Regional Rural Banks	15,127	17.5%
Private Banks	8,877	10.0%
Urban Cooperative Banks	6,773	08.0%
Foreign Banks	293	0.3%
Total	86,508	100%

Source: Reserve Bank of India 2009-10

- Financial institutions continue to consider the branch banking model to be the best approach to relationship banking, hence, the high emphasis on an extensive branch network.
- Although RBI has relaxed the branch licensing requirement for Tier II and below cities, not many banks are aggressively planning on branch expansion due to concerns of feasibility regarding newer branches and high costs involved in setting up of these branches.

- Traditionally, many private and foreign banks overcame the challenge of limited outreach by indirect participation through NBFCs. Banks either lent capital to NBFCs or purchased securitized assets from NBFCs that meet priority sector lending guidelines. However, under the current guidelines, indirect lending to the MSME sector through intermediaries such as NBFCs is excluded from the priority sector.

All public sector banks, private banks and foreign banks have an internal framework to manage risk. Primary research suggests that while loan policies, prudential limits and pricing limits of all banks tend to be similar, processes such as sourcing and underwriting are varied.

- Public sector banks adopt a branch-based multi-tiered approach to source, service and monitor credit proposals. In such a system, the branch personnel are responsible for both sourcing and underwriting and the risk is managed by setting limits on the amounts approved.
- On the other hand, most private and foreign banks typically segregate their sales and underwriting teams to manage the risk. Underwriting in such banks tends to be decentralized.
- While the comprehensive processes enable effective risk management, these processes also tend to increase the turnaround time of proposals, which is a key constraint for MSMEs that require timely access to credit.

The focus of the private and public sector banks on efficiencies and higher profitability limits the expansion of their branch network, hindering them from reaching out to newer customer segments such as the MSMEs. Because of the limited branch network these banks have to rely on third party agents to source customers.

Small Banks: Small banks such as RRBs, UCBs and government financial institutions such as SFCs, SIDCs have extensive potential for outreach.

- Analysis of the data on RRBs and UCBs suggests that these have a combined network of approximately 21,900 branches across India. RRBs cover around 525 districts across the country – their branch outreach is second only to the infrastructure of public, private and foreign banks.
- Smaller banking institutions have better knowledge of the local context and have first-hand access to information on enterprises and entrepreneurs. This means that these banks have the potential to serve a much larger MSME customer base than they are currently serving.

Despite the potential for reach, these institutions account for only 8% of the formal debt supply to the MSME sector. Assessments of reports by the RBI suggest that these banks have certain strategic and operational challenges. These are:

- RRBs operate in smaller, resource-poor markets but tend to have organization structures and operating costs similar to that of full-service bank branches.
- RRBs face the perception of being a poor man's bank, resulting in lower deposit mobilization and increased dependence on sponsor banks.
- With borrowers wielding considerable influence over the management, resulting in a conflict of interest and weaker decision making, UCBs suffer from challenges of poor governance.
- High non-performing assets, poor credit appraisal and inadequate under-writing policies have stifled the growth of State Finance Corporations. In fact, very few of these corporations are active.

Non-Banking Finance Companies: NBFCs provide an estimated INR 0.57 trillion (\$11.4 billion) of debt finance to the MSME sector. The size of credit disbursed ranges from INR 0.3 million (\$6000) for micro enterprises to INR 50-100 million (\$1 million – \$2 million) for medium enterprises. A large share of the finance is used for asset purchase. Analysis of the NBFCs' MSME portfolio and primary research suggests that enterprises in transport business dominate the portfolio. Engineering, vendor supply chains and retail trade are among the other key industries served by NBFCs.

NBFCs are companies registered under the Companies Act 1956 and engaged in business of loans, leasing and hire-purchase. NBFCs function akin to a bank, with few key differences such as: (a) NBFCs are not part of the payment and settlement mechanism, i.e., NBFCs cannot issue transaction instruments such as cheques (b) NBFCs don't have the facility of deposit insurance and credit guarantee.

NBFCs are governed by a separate set of regulations with lower compliance overheads, affording them several operational advantages and the flexibility to adopt innovative business models. Key traits are:

- The operational structure of NBFCs tends to be more flexible, nimble, and cost-effective (operational costs) compared to a bank.
- The branch outreach of NBFCs is comparable to that of the combined network of RRBs and UCBs. Due to their reach, NBFCs have a better knowledge of the local context and non-financial information on entrepreneurs and enterprises.

- Armed with greater knowledge on enterprises, NBFCs are better placed to finance assets that are considered risky by conventional banks.

Although NBFCs enjoy considerably lower regulatory overheads, they experience challenges in raising debt, as all NBFCs cannot accept public deposits. Hence:

- NBFCs rely heavily on commercial banks and promoter's equity for growth.
- Due to high reliance on bank financing, the cost of funds for NBFCs tends to be higher. As a result, NBFCs loans carry higher interest than those offered by banks.

NBFCs leverage their operational strengths to differentiate products and offer personalized service. Also, these require relatively less documentation, process loan applications faster and allow flexible collateral options. Primary research suggests that niche NBFCs tend to use immovable property and hypothecated assets as collaterals, while some larger NBFCs also offer collateral-free finance, based on the cash flows and financial performance of the beneficiary enterprises.

Micro Finance Institutions [MFIs]: Microfinance institutions are often incorporated as NBFC-MFIs, and are mostly active in the unregistered and unorganized microenterprise segment. MFIs are gradually scaling up from providing individual loans to providing business loans for micro enterprises. The average size of credit disbursed by MFIs ranges from INR 0.015 million (\$300) to INR 1 million (\$20,000) per enterprise. Primary research suggest that MFIs accept immovable property such as land, building and/or hypothecated assets as collateral.

- MFIs have extensive fleet-on-street structures for ground operations that enable them to reach unserved regions.
- With extensive outreach and experience in joint liability operations, MFIs often have a better understanding of the enterprise potential and financial performance, helping them in their customer acquisition strategies.

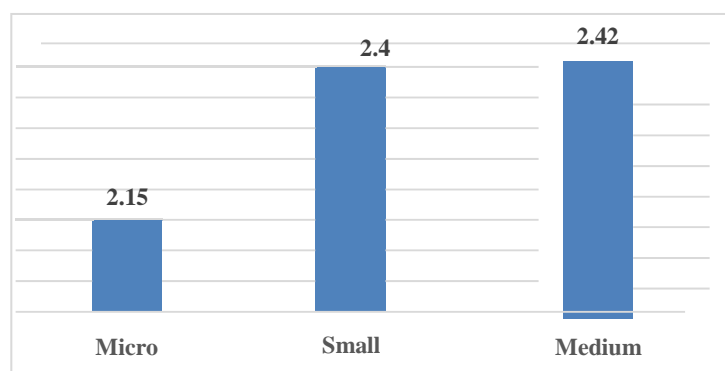
The study estimates that MFIs supply INR 0.02 trillion (\$0.4 billion) of debt to the micro enterprise segment. In line with broad sector financing trends, short-term working capital accounts for a larger share of the portfolio. Despite the huge market potential, the current activity of MFIs is limited due to constraints in accessing capital and other stringent regulatory requirements. MFI activity in micro enterprise financing is limited to loan sizes of INR 0.05 million (\$1,000), or less, due to recent changes in the regulation. The new regulations for MFIs require them to be structured as MFI-NBFCs, which will not have more

than 15 percent of the loan portfolio in loan assets of INR 0.05 million (\$1,000) and above. In other words, 85 percent of the loan portfolio of MFIs must comprise loan assets, specifically for income generating activities and not exceeding the INR 0.05 million (\$1,000) limit.

6.3.2 Breakdown of Debt Flow by Enterprise Size:

The current flow of debt finance is uniformly distributed across micro, small and medium enterprises. Based on the analysis of the data from RBI and other financial institutions, debt channeled to micro, small, and medium enterprise segments respectively is estimated to be INR 2.15 trillion (\$43 billion), INR 2.4 trillion (\$48 billion) and INR 2.42 trillion (\$48.4 billion). Following figure 1.13 shows the debt supply in MSME segments.

Figure 1.13 Debt Supply in MSME Segment (in INR trillion)



Source: RBI, SIDBI, IFC-Intellcap Analysis

The above data suggests that although micro enterprises have the largest demand, financial institutions prefer serving the small and medium enterprise segment. Higher average debt demand and lower cost of transactions makes small and medium enterprises more attractive to formal financial institutions.

- Analysis of debt finance flow suggests that a micro enterprises on an average gets disbursed a debt of INR 0.15 – 0.3 million (\$3,000 – \$6,000), while average credit disbursement for small enterprises is INR 1.5 – 3.5 million (\$30,000 – \$70,000).
- Limited data is available to estimate average credit provided to medium enterprises. However, primary research suggests that average disbursement is approximately INR 40 million – 50 million (\$0.8 – 1million).
- A comparison of the average finance demand of a micro or small enterprise, and the average disbursement shows that the formal financial sources meet only 40% to

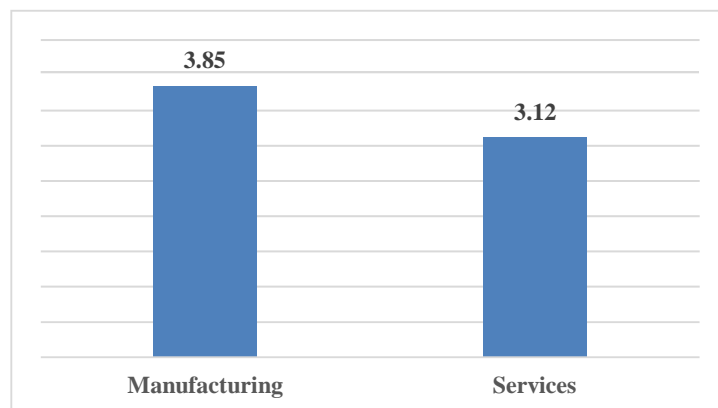
60% of the actual requirement of these enterprises. The shortfall exists in both short-term and long-term financing. However, unlike micro and small enterprises, most medium enterprises are adequately financed by formal financial institutions.

- One of the reasons why formal finance is limited is because enterprises are not able to provide adequate collateral to secure the loan. Financial institutions typically calculate the value of loan sanctioned as a ratio to the value of the collateral available. Data from banks suggests that 98% of the MSME portfolio of banking institutions is secured by tangible assets.

6.3.3 Breakdown of Debt Flow by Type of Enterprise:

The flow of debt finance provided to the manufacturing and services sectors respectively is estimated to be INR 3.85 trillion (\$77 billion) and INR 3.12 trillion (\$62.4 billion). Although one would expect that debt offered to the services sector is lower as financial institutions do not have access to any financing benchmarks similar to those in manufacturing sector, Nayak Committee Recommendation data suggests that the services sector in fact accounts for 45% of the total debt. Figure 1.14 shows the debt supply in manufacturing and services sectors.

Figure 1.14 Debt Supply in Manufacturing and Services Sectors (in INR trillion)



Source: RBI, SIDBI, IFC-Intelcap Analysis

- RBI data and primary research suggests that a manufacturing enterprise on an average gets debt of INR 0.85 million (\$20,000). Food processing, basic metal and metal products, textile and chemicals products receive the majority of debt that gets channeled to the manufacturing sector.
- Only 50% of the average demand of a manufacturing enterprise is met, suggesting that many manufacturing enterprises remain underserved.
- Although the manufacturing sector still accounts for a large share of debt by

volume, growing at a compounded annual growth rate of 20% a year, it is still lower than the overall sector average of 30%. This suggests that financial institutions are slowly shifting to financing the service sector.

- Manufacturing enterprises that operate in clusters are relatively better informed on formal sources of finance than the services enterprises, which are generally dispersed.
- Estimates indicate that a services enterprise on an average gets around INR 0.55 million (\$11,000). Traditional services business such as restaurants, small transport operators, and small water transport operators are the main beneficiaries of formal credit uptake because financial institutions have developed a good understanding of these industries over the years.
- Traditional services businesses tend to have significant primary security/asset or collateral to secure financing. Transport operators for example have trucks that can be pledged as primary security.
- The study estimates that formal financial institutions meet approximately 40% to 70% of the debt demand of an enterprise, forcing enterprises to resort to informal sources to finance the gap.
- Currently, the volume of formal debt in the services sector is lower compared to the manufacturing sector. Including retail trade in priority sector lending is one reason why the services sector is seeing increasing credit inflows (an estimated INR 0.5 – 0.6 trillion or \$10 – 12billion).
- Knowledge-based enterprises such as software companies, management consultants and human resource consultants get far lower debt finance than traditional services businesses. That is because financial institutions have yet to develop appropriate risk assessment frameworks to assess such enterprises and most such units require finance primarily to cover manpower costs. Moreover, knowledge-based enterprises tend to have limited collateral to secure financing.

6.4 Equity Finance Flows to the Marginal Entrepreneurs Sector:

6.4.1 Introduction

It is estimated that a total of INR 0.03 trillion (\$0.6 billion) is directed to the sector by way of equity financing. Most of the enterprises in the sector are proprietorships and partnerships that do not allow for infusion of equity. In addition, equity investors require a high level of operational and financial transparency, which is lacking in a significant number of MSMEs.

In sum, there are several legal challenges that constrain the small and micro enterprises from getting equity capital. Consequently, it is primarily the mature small and medium enterprises that are the beneficiaries of equity capital financing. SIDBI Venture Capital Limited, along with a few private equity firms, is currently leading the supply of equity capital to the sector. In the General Budget of 2012-13, the Government of India announced the intention to set up an INR 50 billion (\$1 billion) India Opportunities Fund through the Small Industries Development Bank of India (SIDBI). The proposed fund is expected to enhance the availability of equity for sector. The fund could also potentially encourage private sector funds to participate and innovate in setting up equity/debt funds specifically targeting the sector.

6.4.2 Challenges in Equity Financing

Equity investment in MSMEs is difficult not only because of legal constraints already highlighted, but also because of significant operational challenges involved in managing MSME-focused funds, which include:

- Size of investment deals is typically quite small, and there is a lack of adequate information on the market segment as well as on individual enterprises. Hence a high level of due diligence is required, which increases the transaction cost and is not always commensurate with potential returns.
- In the absence of credible data and information, accurate valuation of enterprises becomes difficult.
- The failure rate of enterprises in this segment tends to be high, significantly increasing risk for investors.
- Options for exit from the MSME segment are limited, and there have been few actual exits in this sector in the past.

6.5 Marginal Entrepreneurs Finance Process Flow and Challenges:

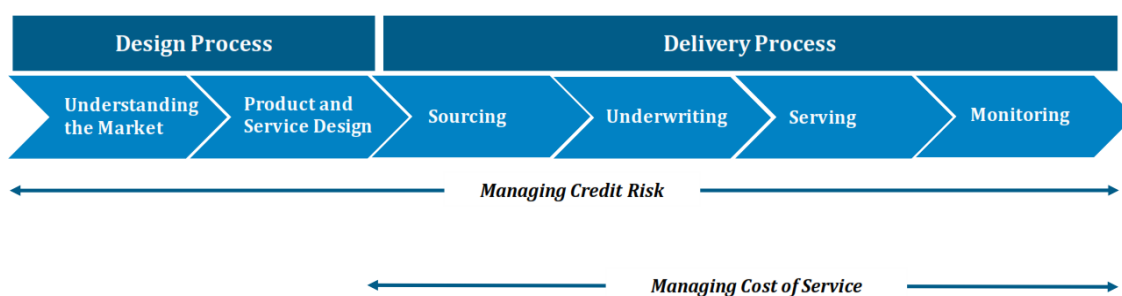
6.5.1 Introduction

Although the process of providing debt and equity capital for financing the segment is not a lot different from that followed for other segments, yet investors need to have differentiated product and marketing strategies for the sector. This is to factor in the heterogeneity and risk inherent in the MSME sector.

6.5.2 Debt Finance Process and Challenges:

The process for debt finance to the MSME segment comprises the following; (a) understanding the market (b) product and service design (c) sourcing (d) underwriting (e) serving and (f) monitoring. Following figure 1.15 shows the MSME debt finance flow.

Figure 1.15 MSME Debt Finance Flow



Source: IFC-Intellcap Analysis

(a) Understanding the Market: The MSME sector is extremely heterogeneous and the market needs to be segmented beyond the size criterion of micro, small and medium enterprises. Financial institutions can use several parameters such as area of operation, industry segment, vintage, legal structure, cluster operations to identify sub segments that can be effectively served by leveraging institutional strengths. Most of the MSME data is centered around the MSMED Act definition of the sector that sheds little light on the financial appetite of an enterprise. Financial institutions need to go beyond aggregate data to obtain granular information on the target market and identify segments that can be effectively served given the strengths and weaknesses of the respective financial institution.

(b) Product and Service Design: The process of product and service design is closely linked with understanding the market. Most financial institutions identify enterprises in the vicinity of branches and use rule-of-thumb to address the financial needs of micro and small enterprises. Instead, information about key business drivers and cash flow cycle could better help financial institutions develop targeted products and services. In the absence of quality data on enterprises, financial institutions tend to offer standardized products and services to select sub-sectors within the MSME sector.

The current product and service portfolio of financial institutions includes both fund- based and non-fund based products. Parameters such as interest rate, collateral requirements and repayment cycle are all evaluated while designing products. Demand from the MSME segment is sensitive to each of these parameters. For instance, a frequently quoted constraint,

of a 1% fee on a bank guarantee that is charged by banks can often be difficult for a small enterprise to service.

(c) Sourcing: The cost of acquiring and serving MSMEs is high as these enterprises are small, geographically dispersed and have a low average demand per enterprise as compared to large enterprises. The effort and cost required to source a micro enterprise client is the same as that for a medium enterprise. As a result, financial institutions prefer to serve a larger number of small and medium enterprises than microenterprises.

(d) Underwriting: Underwriting involves diagnosis of financial performance of enterprises and assessment of risk associated with them. Information asymmetry in the MSME sector makes underwriting a challenging task for financial institutions. Financial institutions tend to assess MSMEs largely on the basis of financial performance. While this practice saves costs; it also increases the chances of rejecting the credit application. Instead of relying solely on financials to assess creditworthiness of enterprises, financial institutions can use assessments that incorporate softer parameters such as entrepreneur background, relationship with customers and suppliers, and the psychometric profile of entrepreneurs. However, it is worth noting that while soft information may address the issues of asymmetry, it also carries the risk of increasing the cost.

(e) Service Delivery: A financial institution begins the relationship with an enterprise at disbursement stage; which is either on demand or in tranches, requiring multiple transactions. Financial institutions find it challenging to manage transaction and operating costs including manpower as the credit size tends to be low.

(f) Monitoring: Effective monitoring is essential to manage the asset quality and capture critical data that can be leveraged for future credit assessment of MSME clients. Through monitoring, financial institutions can positively impact portfolio quality, allowing for early warning of potential default.

6.5.3 Equity Finance Process Flow and Challenges:

The process for equity finance is similar to debt, comprising six stages; (a) screening (b) due diligence (c) valuation and deal structuring (d) monitoring and (e) exit. Following figure 1.16 shows the equity finance process flow.

Figure 1.16 Equity Finance Process Flow



Source: IFC-Intellcap Analysis

(a) Screening: The screening stage mainly involves broad assessment of the enterprise’s investment worthiness, based on parameters such as market potential of the product or service, product and service differentiation, entrepreneur’s profile and track record, management profile and fit with the investment philosophy of the investor. Enterprises that fir the investment criteria are then put through the due diligence process. Unlike large enterprise investments, the potential deal flow in the MSME sector is limited. A large number of enterprises, particularly micro and small enterprises, are not equipped to deal with the demands of equity investors. Legal challenges aside, other issues such as dilution of control, management freedom and vision also limit the number of enterprises that seek external equity. Primary research suggests that only mature small and medium enterprises have the ability and appetite to absorb external equity.

(b) Due diligence: The due-diligence process is similar to the underwriting process in banking institutions. It is an assessment of the enterprise’s financial performance, growth potential and scalability. The process takes into account not only the current and expected future financial performance, but also the future growth potential, and the potential for upside that an investor could realize. Due-diligence is an expensive process as it consumes significant amounts of the fund managers’ time and financial resources. The potential deal size in the MSME sector tends to be smaller than in the large enterprise segment, as a result of which extensive due-diligence can be unviable.

(c) Valuation and Deal Structuring: The equity value of an enterprise is determined through an extensive financial valuation process. The valuation process is followed by deal structuring that lays down the flow of funds, investor rights, control structure, and potential exit avenues, among many other clauses to cover the investor risk. Valuation of MSMEs is challenging as the sector is heterogeneous in terms of geography, industry of operations and legal structure. In addition, there is a lack of reliable benchmarks to validate valuation of an enterprise.

(d) Monitoring: Unlike banking institutions that adopt a hands-off approach once they have provided credit to an enterprise, most investment funds in the sector adopt a relatively hands-on approach. A fund typically nominates a director on the Board to monitor and participate in the strategic decision-making process of the enterprise, with a clear focus on supporting the growth of the enterprise and maximizing investment returns. Hence monitoring in the case of equity finance is far more rigorous than with debt finance for the MSME sector.

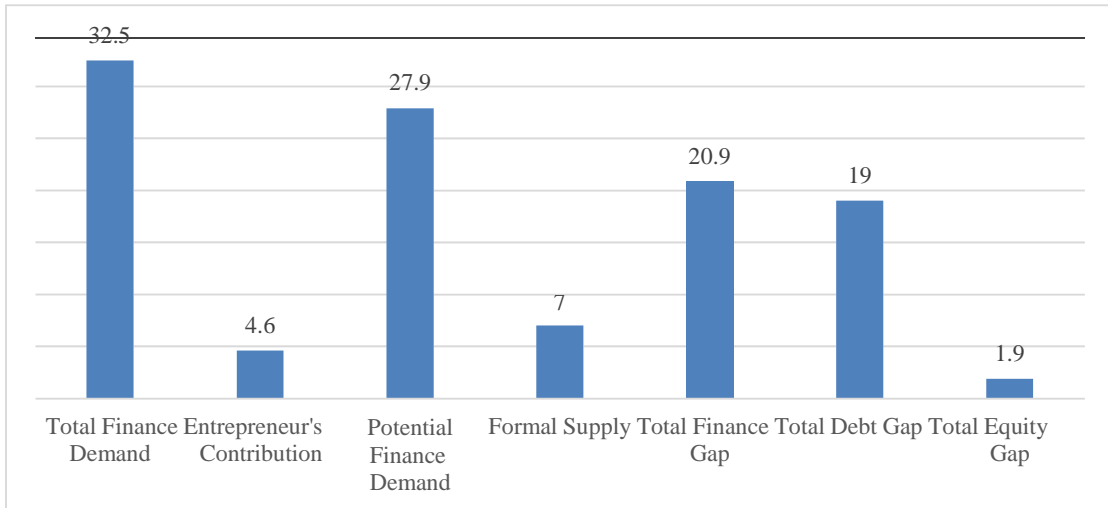
(e) Exit: Owing to the small size and low maturity of MSMEs, equity investors tend to have limited options for exit. Field interviews with investors suggest that secondary sale is the most widely used exit route by investment funds. This is also a significant constraint to equity infusion in the sector. In order to increase the avenues of equity financing for MSMEs, and provide potential exit opportunities for investors, government and regulators have facilitated the formation of the SME Stock Exchange. Both the Bombay Stock Exchange and the National Stock Exchange have set up SME exchanges expecting that at least ten enterprises list on the bourse. Although setting up of the SME Stock Exchanges is a step in the right direction, the cost of initial public offer, valuation concerns and limited deal flows may continue to present challenge for equity investors.

7. Financing Gap in Marginal Entrepreneurship Sector:

7.1 Introduction:

The overall finance gap in the sector is estimated to be INR 20.9 trillion (\$418 billion). The potential demand for external finance is estimated to be INR 27.9 trillion (\$558 billion), while the total finance channeled by formal sources is estimated to be INR 7 trillion (\$140 billion). The overall finance (debt and equity) gap of INR 20.9 trillion (\$418 billion) is split into a debt gap of INR 19 trillion (\$380 billion) and an equity gap of INR 1.9 trillion (\$38 billion). The potential demand is estimated to be INR 27.9 trillion (\$558 billion), after excluding entrepreneur's own contribution towards capital expenditure and working capital finance (INR 4.6 trillion; \$92 billion). Entrepreneurs finance this need through internal accruals, or by leveraging personal resources. Studies on the sector suggest that entrepreneurs contribute approximately 25% of capital expenditure demand and 20% of the working capital finance demand. Figure 1.17 explains the prevailing financing gap in the sector.

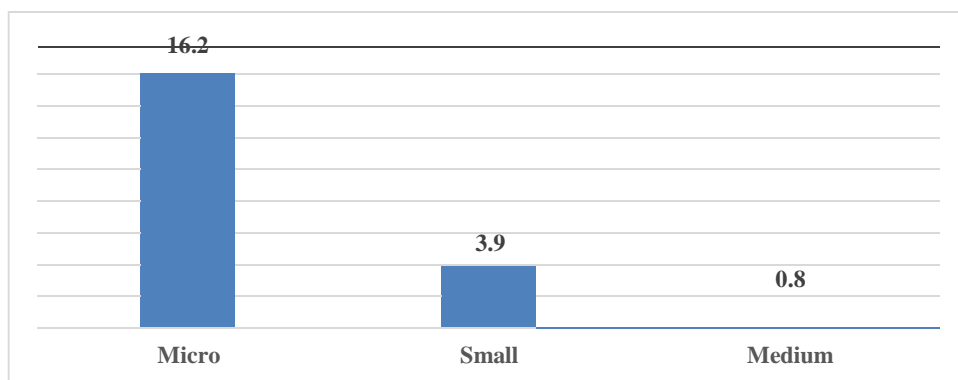
Figure 1.17 Overall Financing Gap in MSME Sector (in INR Trillion)



Source: MSME Census, RBI, SIDBI, IFC-Intellcap Analysis

The financing gap in micro, small and medium enterprise segments is estimated to be INR 16.2 trillion (\$ 324 billion), INR 3.9 (\$ 78 billion) and INR 0.8 trillion (\$ 16 billion), respectively. Figure 1.18 shows the finance gap in micro, small and medium enterprise segments.

Figure 1.18 Financing Gap in MSME Sector (in INR Trillion)



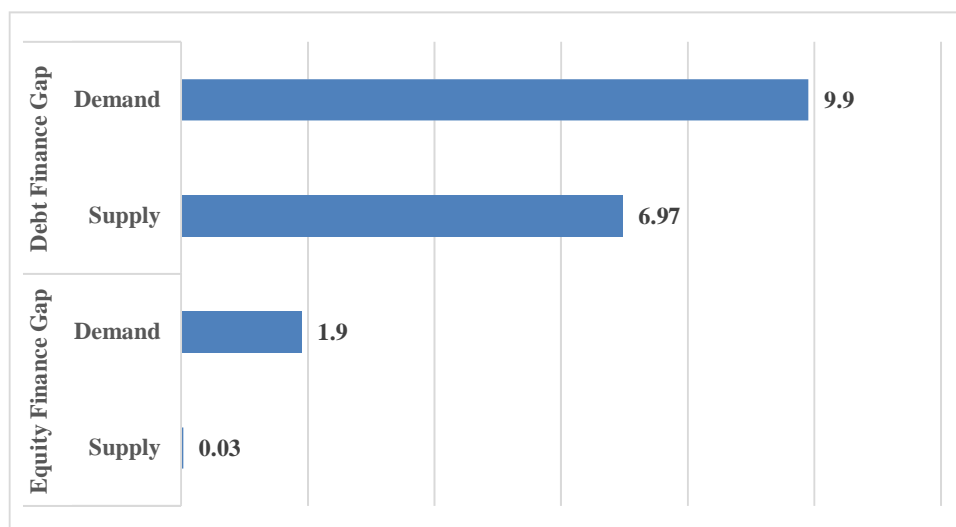
Source: MSME Census, RBI, SIDBI, IFC-Intellcap Analysis

7.2 Viable and Addressable Gap in Debt and Equity:

It may not be viable for formal financial institutions to serve all the demand in the sector. After the exclusions to the debt demand, the finance gap in the MSME sector that financial institutions consider viable and addressable in the near term is estimated to be INR 3.57 trillion (\$71.4 billion). The viable and addressable debt and equity gap is estimated to be

INR 2.93 trillion (\$58.6 billion) and INR 0.64 trillion (\$12.8 billion), respectively. Figure 1.19 shows the viable and addressable finance gap in the MSME sector.

Figure 1.19 Viable and Addressable Finance Gap in the MSME Sector (in INR trillion)



Source: MSME Census, RBI, SIDBI, IFC-Intellcap Analysis

Analysis of the finance gap in the MSME sector suggests that:

- The gap in debt is largely because of unserved micro enterprises and underserved small enterprises. The study estimates that financial institutions serve an estimated 10.3million (see Appendix A) micro, small and medium enterprises; however they meet only an estimated 40-70% of the demand of an enterprise on an average.
- The shortfall in equity is even larger with a gap-to-demand ratio of 100%, suggesting that enterprises across the sector are constrained for both growth-stage as well as early-stage equity capital. This can be attributed partly to non-amenable legal structures (ownership structures) and partly to the low maturity levels of most MSMEs.

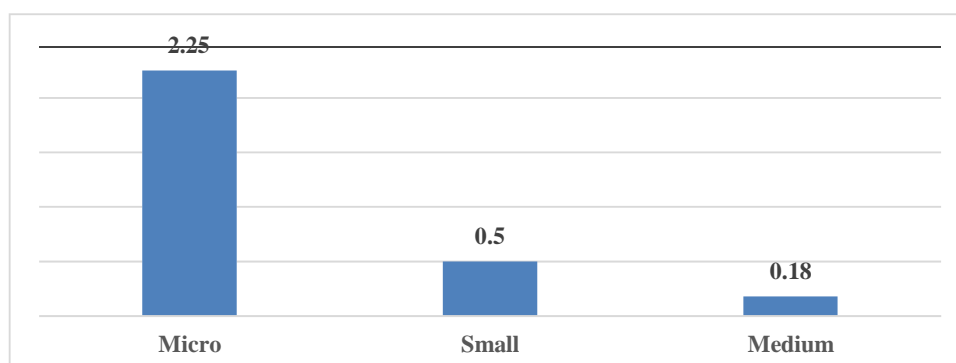
7.2.1 Demand – Supply Gap by Size of Enterprises:

The micro, small, and medium enterprise segments respectively account for INR 2.25 trillion (\$45 billion), INR 0.5 trillion (\$10 billion) and INR 0.18 trillion (\$3.6 billion), of the viable debt gap that can be addressed by financial institutions in the near term. The micro and small enterprise segments account for 97% of this debt gap.

Figure 1.20 shows the viable and addressable debt gap in micro, small and medium

enterprises segments.

Figure 1.20 Viable and Addressable Debt Gap in Micro, Small and Medium Enterprise Segments (in INR trillion)



Source: MSME Census, SIDBI, Primary Research, IFC-Intellcap Analysis

Micro Enterprise Segment: The micro enterprise segment accounts for the largest share (80%) of the viable and addressable debt gap to the sector, with a gap-to-demand ratio of 51%. Analysis suggests that the gap in the segment is due to both unserved and underserved enterprises approximately 1 million addressable micro enterprises are unserved. For the micro enterprises that are served, the formal finance provided meets only 40-50% of their requirement. Some of the key constraints that explain the debt gap are as follows:

- Micro enterprises mostly operate in the service sector, and most entrepreneurs do not have access to immovable collateral to secure finance or get the sanctioned limits to be raised.
- Entrepreneurs have limited internal resources to capitalize (equity) the business and limited managerial experience, both of which make accessing debt capital from formal sources challenging. As a result, an enterprise is vulnerable to working capitals train.
- Although both financial institutions and government agencies have several products and schemes for micro enterprises, there is little awareness about these among entrepreneurs, making it challenging for institutions to reach out to them.
- For financial institutions, sourcing and acquiring micro enterprises is extremely challenging and expensive. The branch walk-ins are very limited, and staff actively source potential customers themselves, which increases the cost of acquisition. Further, the third-party agencies sourced enterprise accounts are not only expensive, but also limit building of customer relationships.
- Financial institutions are constrained by the lack of readily available financial information on these enterprises. These enterprises mostly transact in cash and have

little incentive to maintain proper financial records as bookkeeping increases the cost of operations. Since financial institutions consider financial viability critical for risk assessment, poorly documented financial information compels them to either reject the enterprise or sanction lower than required credit limits.

- Yet another reason why institutional finance has had a limited reach is the use of traditional credit assessment tools to appraise micro enterprises, leading to conservative decision-making.

Since the cost is similar for acquiring a micro and a small enterprise account, financial institutions prefer to service more small enterprises as their average debt demand tends to be ten times larger than that of micro enterprises. A lower gap-to-demand ratio of 18 percent suggests that the small enterprise segment is relatively better served than micro enterprises. Financial institutions find small enterprises more attractive also because entrepreneurs in the segment are more financially aware.

Small Enterprise Segment: The viable and addressable debt gap in the small enterprise segment is largely due to the fact that a large number of enterprises in the segment are underserved. Analysis of the gap suggests that on an average, INR 1.5 million – INR 3.5 million (\$30,000 – \$70,000 per enterprise) gets directed to an enterprise, which meets 40 – 70% of an average demand estimated at INR 4 million –4.5 million (\$80,000 – \$90,000)[112]. Some of the key demand-side and supply-side constraints that explain the debt gap are as follows:

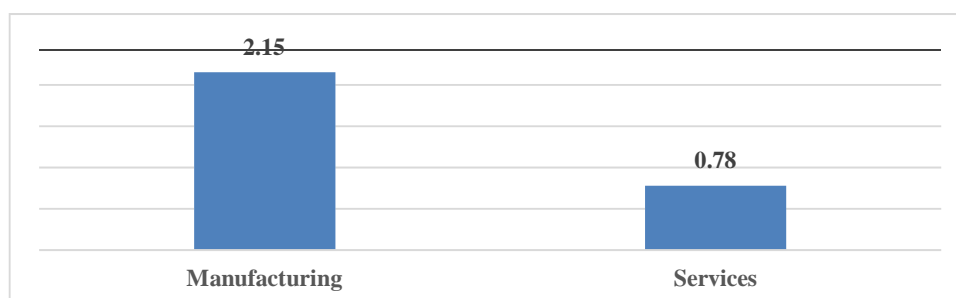
- The debt gap in the sector is attributed largely to a shortfall in working capital finance. Enterprises in the segment tend to have longer working capital cycles due to delayed realization of payments from buyers – median debtor days in the segment are estimated to be 90-100 days. The working capital limits sanctioned by banks do not meet the demand of the enterprises adequately, resulting in the gap.
- Information asymmetry and opaqueness in the reported financial statements is one of the key reasons for financial institutions not sanctioning higher working capital limits.
- Financial institutions report that the opaqueness in the financial statements stems from inconsistency between reported past performance and projected future performance. A deeper assessment suggests that financial statements are often prepared for taxation purposes, and don't accurately reflect the performance of an enterprise.

Medium Enterprise Segment: Medium enterprises are the best served segment in the MSME sector, and account for only an INR 0.18 trillion (\$ 3.6 billion) of the viable and addressable debt gap. In addition to debt, the medium enterprises are able to absorb equity and other hybrid instruments. The debt gap in the segment is due to a shortfall in incremental working capital financing for manufacturing enterprises, and under financing of service oriented enterprises in the segment.

7.2.2 Demand Supply Gap by Type of Enterprise:

The study estimates that the viable debt gap that can be addressed by financial institutions in the near term in the manufacturing and services sector is INR 2.15 trillion (\$42 billion) and INR 0.78 trillion (\$16.6 billion), respectively. The smaller debt gap in the services sector can be attributed, in part, to the RBI regulation that allows retail trade financing to be classified as priority sector lending. As the retail industry mostly has micro enterprises, banks increase the share of retail clients in their MSME portfolio to meet the priority sector obligations. Figure 1.21 presents the viable and addressable debt gap in manufacturing and services sectors.

Figure 1.21 Viable and Addressable Debt Gap in Manufacturing and Services Sectors (in INR trillion)



Source: MSME Census, SIDBI, IFC-Intellcap Analysis

Manufacturing Sector: Manufacturing enterprises account for 73% of the sector's viable and addressable debt gap. Some of the key reasons for the gap in the sector are:

- Manufacturing MSMEs often experience delays in payments, resulting in considerable capital being tied up in receivables. Such a situation increases the working capital requirement. For instance, if the working capital cycle of an enterprise increases from 60 days to 90 days, the working capital requirement too increases by approximately 50%. Since suppliers' credit remains limited, the working capital demand of enterprises tends to far exceed the short-term credit

limits allocated by financial institutions, resulting in a large financing gap.

- The problem of working capital shortfall is more severe in export/import-oriented MSMEs. In addition to delayed payments, cash flows of the enterprise are also vulnerable to currency rate fluctuations, and with limited formal finance, such enterprises tend to be underserved.
- Enterprises in the sector also face challenges in financing growth. Most manufacturing enterprises plan growth around capacity expansion as opposed to productivity enhancement through process efficiencies. Financial institutions are wary of financing regular capacity expansion as they perceive MSMEs to be vulnerable to economic downturn, when capacity expansion goes underutilized.

Services Sector: Services enterprises make up 27% of the overall viable and addressable debt gap. Financing is better in traditional services industries such as retail, small transport operators, and hospitality, as financial institutions have a better understanding of these sectors. Some of the reasons for gap in the sector are:

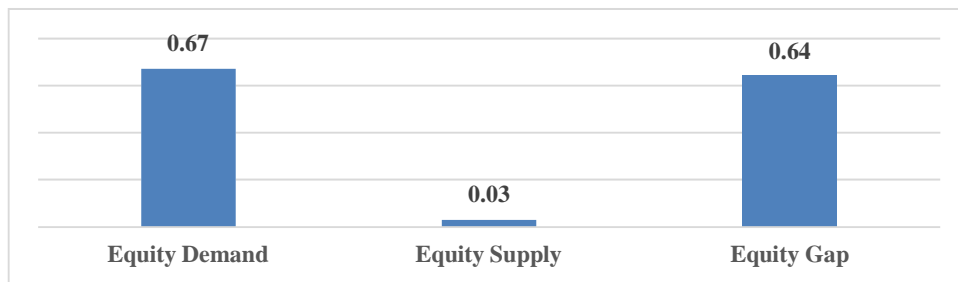
- Traditional services enterprises experience a greater debt shortfall in capital expenditure financing compared to working capital requirements because there is a high level of cash transactions in business operations that can be used to finance working capital needs.
- Although traditional services enterprises often have access to primary security, they tend to transact mostly in cash, with limited records of their financial transactions. Due to inadequate information on financial behavior of the enterprise and entrepreneur; the sanctioned finance limits tend to be lower than what they need.
- Financial institutions do not have reliable financing benchmarks for the services sector unlike for the manufacturing sector, for which there are benchmarks based on the recommendations of the Nayak Committee. As a result, there is greater difficulty in determining the actual financing needs of different types of enterprises in the services sector, leading to under-financing of the sector.

7.2.3 Viable and Addressable Gap in Equity:

The viable and addressable gap in equity is severe, with gap-to-demand ratio of ~95 percent estimated to be INR 0.64 trillion (\$12.8 billion). The current flow of INR 0.03 trillion (\$0.6 billion) is largely directed to mature small and medium enterprises. Figure 1.22 shows the viable and addressable equity gap in MSME sector.

Figure 1.22 Viable and Addressable Equity Gap in MSME Sector (in INR)

trillion)



Source: MSME Census, RBI, SIDBI, IFC-Intellcap

The equity gap in the sector is a combined result of demand-side challenges such as the legal structures of enterprises, as well as supply-side gaps such as a lack of investment funds focused on MSMEs.

- Early-stage small enterprises, particularly in the services sector, have limited access to venture capital as the sector currently has few equity investments funds that focus on MSMEs.
- Although mature small and medium enterprises can access external equity for growth capital, concerns of management control and potential issues in aligning with the long-term goals of the external investors are often cited as constraints on the demand side.
- On the supply side, limited information on governance structures, transparency and valuation concerns are the key reasons for mature small and medium enterprises failing to receive external equity.
- In fact, equity financing to the sector itself is currently limited. In addition to investor constraints mentioned above, operational challenges of managing a small investment and limited avenues of exit make MSME equity financing unattractive for investors.

Chapter-2

Literature Review

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2.1 Introduction

2.2 Banking services and marginal entrepreneurs

2.3 Literature Review

2.4 Research Gap

2.1 Introduction:

The availability of external finance for small and medium enterprises is a topic of significant research interest to academics and an important issue to policy makers around the globe. The conceptual framework to which most of the current research literature adheres has been quite helpful in understanding the institutions and markets that provide funds to SMEs in developed and developing nations. This framework has also provided insights into the effects of policies that affect access to funding by creditworthy SMEs in these nations. However, there is an argument that the current framework is oversimplified, and neglects key elements of the financial system that affect SME credit availability.

Small business and entrepreneurship form an integral part of a healthy national economy. In recent years various factors, such as the impact of privatization and specialization in industry and corporate restructuring and downsizing as influenced by new management theories such as Thomas Peters' "Liberation Management: Necessary Disorganization for the Nineties" (New York, A.A. Knopf, 1992), have combined to encourage the emergence of more small and medium-sized companies. At the same time new opportunities for such companies are seen in the wooing of small business into exporting and international trade, and the creative efforts of major corporations in the area of business community development.

The valuable contributions of such small businesses are widely recognized by all sectors of society, as can be seen by the many efforts to aid small businesses taking place at the federal, state, and local level. Such efforts range from new rulings of the Securities and Exchange Commission simplifying its filing requirements for small businesses making stock offerings to the public to a revamping of business school curriculums to include the study of small business entrepreneurship.

Yet, in spite of this increased awareness, recent news coverage, while acknowledging a current economic climate of low interest rates and available money supply, indicates that access to capital continues to be the most difficult challenge for small business owners. Recent newspaper articles point to several reasons why even under optimal conditions, entrepreneurs are still not successful at getting financing: banks, by the very nature of their business, are resistant to the high-risk loans which many small businesses represent; potential entrepreneurs may lack the business savvy to articulate what they need in business

terminology; and such inexperienced business persons may also fail to present a well-thought out long-range alternative plan to cover emergencies and other contingencies. Factors such as these all contribute to the decision of a would-be financing source not to commit money to a particular business. For describing the problem statement, various literature has been reviewed in the area of entrepreneurs' availability to finance. Below revealed are some of the literature reviewed.

2.2 Banking Services and Marginal Entrepreneurs

The relationship between banks and small businesses has always been one of mutual dependence. Small businesses are a very important customer group for banks. Small business borrowers, according to one estimate, account for one quarter of total bank credit provided to non-financial businesses and represent 80-90% of the business customers serviced by account managers (Hatch and Wynant, 1991). Most commercial banks consider any business with sales of up to \$10 million as small (Nixon, 1994). Using this definition, some 20 million small businesses are served by 14,000 banks in the United States (Nixon, 1994; Posner, 1992).

While large corporations have access to a variety of capitalization alternatives, bank loans are often the small business owner's only option. Some estimates suggest that commercial banks provide about one-third of the total capital for small businesses (Gillette, 1982). Furthermore, while large companies have experts and departments providing input to their financial decisions, small business owners often have no one to turn to for advice but the bank. They need considerable guidance and hand holding. As such, the typical small business banking relationship involves more than just the exchange of money for a note. Banks usually provide small businesses with an array of services including advice about capital needs and uses, and information regarding industry performance and outlook.

2.3. Literature Review

Growth and development of entrepreneurship in India is a foremost main concern due to the dynamic role these enterprises play in country's industrial economy. One rupee investment in fixed assets in this segment yields an expected 4.6 rupees of goods and services with an incremental 10% in value addition. (Cheolsu, K 2009). Over the past two decades, there has been an increasing drive wide-reaching towards the execution of m-banking for the unbanked people.

The marginal entrepreneurs are part of this unbanked sector, underprivileged of scholarly banking services while playing a dynamic economic role in the emerging countries (Nichter & Goldmark 2009).

According to the Ministry of MSMEs, over 12.8 million MSMEs together hire about 31 million people, harvest 39% of India's engineering output and create 95% of all industrial units. Their return contributes for around 33% of total exports and 50% of total engineering exports. (Ravi S 2009). Marginal Entrepreneurs in most countries, like their minor nature of business always get lesser sustenance and satisfactory banking services. Conventionally, banking has been one of the main limitations for Marginal Entrepreneurs (Ardic et al. 2012, Beck & Demirguc-Kunt 2006, Harvie 2004, Levy 1999).

To begin with, an organized financial system more proficiently distributes capital than persons. Information abnormalities and transaction costs seem when individual borrowing and lending decisions must be made. (Demirgud – Kunt, et al. 2008). Such examples take place almost in all financial markets and have shown more opposing effect to micro and small entrepreneurs. In fact, financing restrictions has concentrated the growth by 6% for large firms and 10% for small firms. (Beck, Demirgue-Kunt and Maksimovic 2005). Prescribed bank financing is also pragmatic linked to firm growth and a large firm size which normally results in greater efficiency, as firms are capable to take advantage of economies of scale. (Diamond 1999).

Firms that cannot avail bank finances, preserve more cash in hand to finance their working capital need or purchase fixed assets – and this puts them at a greater risk of making ruthless investment decisions due to loosened cost controls. So far in adding to the findings discussed above regarding marginal entrepreneurs level repayments of availability to finance, a study accompanied on bank advancing in India determined that there is definite indication of significant potential in advancing in the Indian banking system. (Banerjee, Cole and Duflo 2003)

Another study on advancing in India takes these findings even further by directing to the specific dependence of marginal entrepreneurs 'there are strong structural bedrocks to the insufficient flow of finance, the organizational structure of banks and procedures, have taken them faraway from task coordination and have created a specific wrongness against unimportant loan portfolios. (Morries at el. 2001). Asian entrepreneurs as well as proprietors of prevailing marginal entrepreneurs may counter difficulties in procuring loan

from commercial banking administrations due to interest rate charges, lack of guarantee or security for loans and risk factors; mechanisms of a supply gap. There is also an information gap on the part of marginal entrepreneurs concerning their awareness of sources and accessibility of finance. (Holmes et al. 2003).

The reserves accessible for advancing in developing nations is inadequate and in the perspective of financing marginal entrepreneurs, the transaction costs related to micro financing arise the obstacles for both – lenders and borrowers. Lenders' profit less from small loans and both venture risk and the opportunity of loan default may be high. Borrowers have limited, if any financial resources, of their own to invest in a business endeavor and lacking of guarantee to secure financing. Composed, these causes produce information anomalies, vulnerability issues, high transferring costs and a variety of other troubles which are more apparent in the marginal entrepreneurs financing outlook. (Srinivas 2005).

There is also confirmation from a range of nations that marginal entrepreneurs in minimal, rural, remote places face reasonable disadvantages in recovering and safeguarding finance, as well as difficulties arise from the remoteness of markets and manpower supply and proficiency restraints. (Felsenstein & Fleischer 2002). In India, a vivacious and industrialized micro finance sector would inspiration economic development crosswise the country and sustenance in the movement of wealth among the crowded for ultimately weakening down the gap between the haves and have not. (Raghavan 2006 and Dutta 2007)

Accomplishing the Indian Government's economic and social goals is directly linked to the provision of financing, and thus, to the creation and advancement of development banks. Encompassed in the mission statements of these banks were necessities to capitalize in organizations and activities to encourage manufacturing growth in relatively more under established regions. Thus, be on providing funds for development, particularly in aspects most needful growth and which have less access to other practices of finance. (Goela & Bisman, 2007). Several researchers have studied the Entrepreneur Development that has occupied place since 2003. Some of these noticeable studies were made by Sindhu S. Narayan and P.S. Geethakutty, (2003), Subrata Dutt, (2004), Anil K Lai and Ronald W. Clement (2005), Jagannaadha Pawan Tamvada, (2007), Patricia R. Todd and Rajshekhar G. Javalgri, (2007), Patricia R. Todd and Rajshekhar G Javalgi (2007), K. Lavanya Latha and B.E.V.V.N. Murthy, (2009), Amit K. Chakrabatty and Krishnamay Gosh (2009),

Madhavi, S.P. (2010).

Women entrepreneurship has been acknowledged as an essential element of economic development in Kozhikode, Palakkad and Thissur districts of Kerala. Sindhu and Geethakutty studied the elements that contribute to the economic growth in these districts. The researchers industrialized the entrepreneurial achievement index to measure the level of success in agribusiness by the women entrepreneurs. Outcome revealed that majority of women were self-initiated and innovative and these factors coupled with support from the financial institutions were the dynamics that led these women entrepreneurs to be successful. (Sindhu S. Narayan and P.S. Geethakutty, 2003)

The rural industrial entrepreneurship through non-farm entrepreneurship has contributed to the economic development in Bengal Region of India. Subrata D., studied the impact of rural industries by separating the district into five managerial blocks and collected data from each block by schedule interviews. Using the Linear Structural Model, the data was assessed. The outcome revealed that the rural industrial entrepreneurship has strong impact on the rural economic development (Subrata Dutt, 2004).

The market developments in India have stimulated individual enterprises to enhance their economic growth. Anil and Ronald studied the individual enterprises in the government well-ordered environment and their response to market based environment. Education in entrepreneurial skills, financial support and net-working have empowered the individual enterprise to be successful (Anil K Lai and Ronald W. Clement 2005).

Kalyan S and Atish C examined the marketing strategies of small scale bakery firms in the city of Kolkata in India, The researchers used the customers' survey to confirm the performance of the small scale bakery industry in the light of their business tactics. The consequence revealed that the small scale bakery firms have united their operations with their business strategy (Kalyan Sengupta and Atish Chattopudhyay, 2006).

The skill-based technology in India has reformed the artisans' repetitive livelihood and economic growth. Arindam Banik et al advanced a theoretical model founded on conditions of government sponsored poverty lessening programme. The model was used in cross-examining the situation of the craftsman. The outcome revealed that changes be contingent on wages, toolkits and working condition. (Arindam Banik et al 2007). The factors of entrepreneurship and role of the entrepreneurship were less known in underdeveloped countries. Jagannaadha composed the data through National Sample Survey Organisation of India and examined it by using Bayesian semi- parametric

methods. The outcome revealed that the factors were self-employment, firm formation and geographical location (Jagannaadha Pawan Tamvada, 2007).

Patricia R and Rajshekhar G J evaluated the factors that influenced the internationalization of small and medium sized enterprises in India. The significance of developing and promoting small and medium sized enterprises in India was to position them in the international market place, which was reliant on the economic situation. The assessment of economic situation of small medium enterprises exposed that there were resource gaps. The researchers shortened that utilization of technology and special infrastructure could enable effective use of resources and improve the entrepreneurial activities among the small medium enterprise (Patricia R. Todd and Rajshekhar G. Javalgri, 2007).

The process of rural development is reliant on the support expected from the members of rural cooperatives. Authenticating the facts, Amit and Krishnasamy composed the sample from 100 members. Data were collected from the published annual reports of rural cooperatives. Both the data were analyzed and the outcome revealed that rural cooperatives have enhanced the living standard of rural people and augmented the process of rural development of the study area (Amit K. Chakrabatty and Krishnamay Gosh 2009).

India has implemented policies that have encouraged consumer demand and nurtured entrepreneurship, whereas China has assumed policies that have stimulated resource mobilization. Kalyanaram has endeavored to benchmark India's growth and development against China by associating the growth models and market potential. He found that China and India have implemented two different models of growth and determined that India's model is likely to more maintainable (Kalyanaram G.K., 2009).

Small scale enterprises in Nellore District of Andhra Pradesh confronted problematic in sustaining their entrepreneurial activities. Lavvanya and Murthy inspected the elements that administer the entrepreneurial activities. They evaluated a sample size of 553 units in that district by using ANOVA and Z test. The outcome revealed that the high price of raw materials, lack of market mechanism and marketing of products were major difficulties faced by the entrepreneurs. (Lavvanya Latha K. and B.E.V.V. N. Murthy, 2009) Madhavi S P. did a relative study of rural and urban women entrepreneurs in Ahmednagar District of Andhra Pradesh. Sampling and Garrent's ranking technique were used in associating the rural and urban women entrepreneurs. The conclusion shown that women from rural area

were not doing well due to lack of financial backing and insufficient demand from customers. (Madhavi, S.P. 2010)

2.3.1. The significant role of Entrepreneur in Indian Economy

Daniel Smith, University of North Carolina at Chapel Hill, in his paper *The Role of Entrepreneurship in Economic Growth* in 2010, conveyed evidence that entrepreneurship should be encompassed as an imperative cause of economic growth self-governing of the other factors. Initially, will begin with a review of important literature, and then move to an overview of the data and variables used along with an explanation of the statistical methodology. Here, is the presentation the exploration of the relevant empirical effects and end with a conclusion specifying possible directions for future research. It is essential to note that, for the purposes of this paper, entrepreneurship will be defined as simply the number of new businesses formed in a given time period. Innovation will be defined as the creation of formerly unidentified economically cost-effective ideas.

The customary neoclassical theory of economic growth was first established by Robert Solow in his 1956 paper “A Contribution to the Theory of Economic Growth” (Todaro and Smith, p. 128 and p. 139). In this paper, Solow claims that economic growth is a function of two inputs- the levels of capital and labor in a given area. The exact nature of this function is determined by the technological potentials available to the society in question (Solow, p. 66). Thus, under this theory, the economic growth of a given country is determined by the amounts of labor and capital that country retains and the technological potentials to which that country has access, i.e., the level of knowledge within that country. In recent times, many economists have believed that market friendly government policies are one more significant cause of economic growth.

Hans Pitlik releases his paper “The Path of Liberalization and Economic Growth” by saying that numerous empirical studies have shown that pro-market government policies have a positive impact on the economic growth of a given country. His description for this is that pro-market policies proliferates the benefits individuals receive for performing activities that are favorable to economic growth (Piltik, p.57). This notion infers that entrepreneurship may be significantly influenced by market-friendly government policies.

This notion is sustained by the findings of Matthieu Chemin in his article “The Impact of the

Judiciary on Entrepreneurship: Evaluation of Pakistan's 'Access to Justice Programme'." In this article, Chemin finds that a 2002 reform of the Pakistani judicial system resulted in a significant increase in the level of entrepreneurial activity there (Chemin, p.114). This recommends that some government policies can increase entrepreneurship, and that entrepreneurship is influenced by at least one of the traditional elements of economic growth. Nevertheless, the fact that entrepreneurship can be inclined by some of the traditional elements of economic growth does not essentially rule it out as a separate predictor of economic growth. If there is even one element driving entrepreneurship not included among the conventional aspects of economic growth and entrepreneurship does have an impact on economic growth, then entrepreneurship should be considered as a further separate dynamic of economic growth. The reason for is that, if entrepreneurship is exaggerated by one or more dynamics apart from the conventional aspects of economic growth and entrepreneurship has an impact on economic growth, then entrepreneurship is essentially acting as a substitution for these other elements. Including entrepreneurship as an independent factor of economic growth would thus endorse that the stimulus of these other elements on economic growth was at least partly taken into account. There have been many theories which suggest that entrepreneurship is indeed influenced by factors beyond those traditionally thought to influence economic growth.

One of these philosophies can be found in the ideas of Joseph Schumpeter. In his work *The Theory of Economic Development*, Schumpeter first says that entrepreneurship reasons economic growth by permitting the means of production in a society to be used in innovative and more proficient combinations. Schumpeter thus claims that it is entrepreneurship, not merely information, which causes technological innovation. He then claims that entrepreneurship is a process that is entirely distinctive from the rational economic behavior of people, not a natural result of it. His perceptive is that, for people to behave in an economically rational manner, they must acquire relevant knowledge on which to base their decisions. He also says that since people typically draw their knowledge from their past experience, all their rational economic behavior will be based on past ideas and events. According to Schumpeter, then, economically rational behavior is by definition not innovative. As a result of this, rational economic behavior cannot consequence in the making of exclusively new and untried combinations of the means of production, the major component of entrepreneurship.

Thus, rational economic behavior would basically cause people to familiarize to any

changes in the levels of these conventional elements in whatever way had proven to be most effective in the past. Hence, entrepreneurship, requiring innovation, cannot be an ordinary result of just the traditional factors of economic growth. A more current argument for considering entrepreneurship as an independent factor of economic growth is found in the article “Entrepreneurship and Regional Growth: An Evolutionary Perspective” by Max Kielbach and David Audretsch. The authors of this article inspect the particular nature of the relationship between knowledge and economic growth. They claim that a distinction should be made between the general body of publicly available knowledge and economic knowledge – a subset of knowledge from the general body which business have found a way to use cost-effectiveness. Kielbach and Audretsch go on to say that general knowledge is converted into economic knowledge by the exertions of entrepreneurs, who essentially examine through the general body of knowledge until they find a portion they believe they can adventure and then commence a business based on that piece of knowledge. This scrutinizing through the general body of knowledge can be viewed as a process of innovation. It is the economic knowledge that energizes economic growth (Kielbach and Audretsch,). Hence, according to this article, knowledge by itself is not adequate to create economic growth since entrepreneurship is prerequisite to turn general knowledge into economic knowledge.

This runs counter to the dispute that entrepreneurship is basically a natural result of high levels of labor, capital, and knowledge. Kielbach and Audretsch’s theory is sustained by the findings of C. Mirjam van Praag and Peter H. Versloot in their article “What is the Value of Entrepreneurship? A Review of Relevant Research.” In this article, van Praag and Versloot find that countries with an advanced level of entrepreneurship also have advanced levels of innovation and technological change. This is precisely what one would expect to find if Kielbach and Audretsch’s theory that entrepreneurship is essential for turning general knowledge into economic knowledge, and thus innovation, is true.

This philosophy is identical to that found in the article “The Alert and Creative Entrepreneur: A Clarification” by Israel Kirzner. In his article, Kirzner claims that the main energetic force behind entrepreneurship is people noticing and taking advantage of previously unrecognized price differences (Kirzner). Instances of this might comprise somebody comprehending that they could use an prevailing but little-known technique to produce and sell a given good extensively with reduced cost than anyone else, or someone purchasing goods to be sold at a higher price in the future (Kirzner). It is this recognition

and exploitation of price differentials which moves market toward equilibrium (Kirzner, p. 147). This is a direct paradox to the Schumpeterian idea that entrepreneurship inevitably disrupts the equilibria of markets (Kirzner, pp. 147-148). This contradiction is, however, not important to the thesis of this paper because both Schumpeter and Kirzner agree that entrepreneurship is not merely affected by the conventional elements of economic growth. Even though they may disagree about the particular nature of the prospects for profit confronting the potential entrepreneur, Kielbach, Audretsch, and Kirzner all approve that entrepreneurship is initiated by the capability of people to perceive and act on these opportunities innovatively. If this idea is correct, then the level of entrepreneurship in a given society is initiated by both the extent to which individuals in that society discern and utilize previously overlooked opportunities for profit and the levels of some of the conventional elements of economic growth existing in that society.

Robert Bednarzick also puts an argument that entrepreneurship is not only a consequence of the conventional elements of economic growth. In his article “The Role of Entrepreneurship in U.S. and European Job Growth,” Bednarzick identifies seven key elements that influence entrepreneurship in a given country: the prospects for entrepreneurship present, the demographics, the level of education, the entrepreneurial capacity, the infrastructure, the extent to which culture encourages entrepreneurship, and whether or not capital is controlled mainly by banks or public markets. Bednarzick also claims that there is a positive relationship between entrepreneurship and economic growth.

Of the seven factors that Bednarzick listed in his article, only the first three elements can be seen as being significantly affected by the levels of the conventional elements of economic growth in a given country. The entrepreneurial opportunities present in a given country would be affected by how pro-market the government policies of that country were. Similarly, the level of education in a country would apparently be associated to the level of knowledge in that country, and the size of the labor force would clearly be affected by the population demographics of that country.

Nevertheless, it is problematic to see how any of the other factors that Bednarzick lists could be significantly affected by the conventional elements of economic growth. The infrastructure of a given country would be most influenced by government spending, not market-friendly government policy and regulation, and the extent to which a country’s culture emboldens entrepreneurship is most likely influenced by sociological factors.

Entrepreneurial capability is normally regarded as an external variable whose causes are vague (Otani,). Whether capital is controlled mostly by public markets or banks depends on the general economic structure of a given society, not the conventional elements of economic growth. This recommends even though the conventional elements of economic growth will influence the level of entrepreneurship in a given country to some extent, they do not influence to the extent of justifying its exclusion from the neoclassical model of economic growth.

Further direct sustenance for the view taken by this paper is found in the article “Nondestructive Creation: Entrepreneurship and Management Research in the Study of Growth” by R.G. Hubbard. In this article, Hubbard attributes the high economic growth in the U.S. in the 1990’s and early 2000’s to a grouping of high levels of entrepreneurship and managers at companies being capable to adapt to changing business conditions. He highlights that this high level of economic growth cannot be only attributed to increases in labor, capital, or the level of technology present in the U.S., pointing out that the level of technology in several European and Asian countries exceeded that of the U.S. during this period and that productivity in the U.S. remained high even when it cut down in many other countries in the early 2000’s.

Making the supposition that the level of technological sophistication in a given country corresponds approximately to the general level of knowledge in that country, then Hubbard’s argument recommends that at least three of the four conventional elements of economic growth do not have a major impact on entrepreneurship. Hubbard’s analysis of U.S. economic growth during this period strongly advises that some measure of entrepreneurship should be incorporated as an independent factor of economic growth.

2.3.2. Financial necessity of small entrepreneur and different sources

Robert McGloughlin, in his Resource Report:2 Literature Review on the financial requirements and products available to small scale owners and entrepreneurs from commercial banks, 2006 emphasizes on the findings of local and international studies that relate, or have relevance to, the financial requirements and the financial products that are offered to small scale proprietors and entrepreneurs. This document sets out the issues and current methods to financing small scale proprietors and entrepreneurs those are found internationally and locally. The small enterprise economy has the prospective to contribute

to the development goals of stimulating economic growth, reducing unemployment and reducing levels of poverty. This report sets out the issues and current methodologies to financing Housing Entrepreneurs on the basis of both international and local experience.

(1) Availability of products: Formal financial institutions have found providing support to small scale proprietors and entrepreneurs has been risky, costly and unprofitable (Rogerson), even leading to the expiration of a number of local institutions, such as Saambou Bank. As a consequence the development of financial products and services to this market has been inadequate. Yet availability of finance remains one of the crucial roadblocks sighted by small scale proprietors and entrepreneurs to entering or growing their business, as found by various studies mentioned by Rogerson.

(2) Lending practices and sustainability: Literature from a variety of lenders providing different forms of finance to housing entrepreneurs was reviewed. On the basis of this review, the following common features were identified in respect of lending practices:

- Lending should only occur where there are profitable and viable markets.
- Entrepreneurs should have the required skills to undertake the work and the entrepreneurial initiative.
- Appointment with other producers in the sector should be stimulated.
- Crucial restrictions in the economic chain should be recognized and removed.
- Customer education and counseling should be an integral part of the loan process providing appropriate and affordable business development and support services. Sustenance should be provided by skilled and trained staff who are specialized and knowledgeable of the sector in which the entrepreneur functions. Entrepreneurs should be supported in sharing market information, technical knowhow and information.
- Loans should be custom-made to meet the cash flow requirements of the borrowers.
- Loans should not be made on the basis of the applicants' capability to repay the loan from earnings, rather the main emphasis in approving the loan should rest on expected cash flow and the character of the applicant.
- In order to ensure that the loan is repaid apprehensively, it is important that the lender 'knows the customer'. Consequently, an operating office should be situated amongst the client base and should have continuous contact with the borrower. The lender should have a clear understanding of the borrower and be concentrated on assisting the borrower to succeed.
- Community organizations can be used as a platform to sell and market the loan products.

- Borrowers should give genuine collateral.
- For landlords and entrepreneurs who are expanding their assets gradually, large traditional loans are not well suited to their more incremental needs. A combination of finance from various sources such as savings, loans from family and friends and small loans are being used to overcome difficulties associated with long term recognized finance.

The following ten points were acknowledged as being principles for sustainable lending:

- offer short term loans with regular repayment periods;
- offer small preliminary loans;
- focus on provision of working capital to enterprises with an established track record;
- specialize in financial services and diversify loan portfolios;
- streamline services by making the credit programme a customer friendly process;
- concentrate services and focus on scale;
- shorten turnaround times between loan application and disbursement;
- stimulate repayment through group harmony and joint liability;
- recognize that the poor do save by connecting credit programmes to savings; and
- charge full-cost interest rates, factoring in inflation, loan losses, delinquency and cost of loaning funds.

Small and Medium Enterprises' Access to Credit and Support in South Africa Compiled by Underhill Corporate Solutions (UCS) Pretoria, South Africa December, 2011:

The key object of the study was to evaluate the access to credit and sustenance by SMEs in SA. The main research question was "Is there an SME financing gap in South Africa?" The term "financing gap" refers to a situation where a sizeable proportion of economically substantial SMEs cannot obtain finance from banks, capital markets or other suppliers of finance. Additionally, it is often alleged that (i) many entrepreneurs or SMEs that do not presently have access to funds, would have the capability to use those funds productively if the funds were available; (ii) but due to structural characteristics, the recognized financial system are unable to provide sufficient finance to such entities.

To satisfactorily answer the question "Is there an SME financing gap in SA?" the study separated the SME sector into two markets; (i) demand for and (ii) supply of credit. The analysis reveals that, just as for the rest of the SA economy, the SME sector is divided into two; (i) the first economy, where recognized SMEs are functioning and (ii) the second economy, unceremonious SMEs. Expending the definition of financing gap given above,

only recognized SMEs, by virtue of being properly registered and having a bank account, have access to banks, capital markets or other suppliers of finance. Unceremonious SMEs are excluded totally from the formal financial market. Financing gap in terms of SME numbers: SA has between 2,4 to 6 million SMEs. Around 20% of these SMEs are registered with Companies and Intellectual Property Commission (CIPC) and have a bank account.

Of the recognized SMEs, less than 100,000 (27.3%) successfully apply and receive finance from the recognized financial sector. Almost half of the SMEs are not registered hence are operating informally. Due to their informality, most (84.7%) of them are financially excluded. That is, they do not have access to the formal financial markets. Hence, the total financing gap, both formal and informal SMEs, is expected at around 45-48% of all SMEs in South Africa. The broad picture that appears from the various surveys of SME financing “strongly suggest that business owners in South Africa view access to financing as a significant problem for business activity” (Turner et al, 2008: 15), i.e. that there might be a “financing gap” despite the various public and private sector initiatives to simplify access to financing. Respondents to the FinScope Small Business Survey (2010), though, when asked to identify the single most significant obstacle to growth, access to finance ranked third with 8.7% of small business owners mentioning the lack of access to finance as a reason.

This finance may be attributable to the fact that South Africa has a comparatively well-developed financial sector with a ratio of domestic credit to GDP of 78%. This study’s analysis of supply side of the SME credit market shows that South Africa has a variety of financing programmes and funding schemes by both the public and private sector funding agencies. It was also noted that regardless of the availability of an array of funding programmes, awareness of these programmes and the acceptance has been very low (DTI, 2008), particularly for Government supported schemes.

For those SMEs that apply for finance, the refusal rate has been high, particularly for bank sponsored schemes. There seems to be: (i) a general lack of awareness of the finance programmes; (ii) a disparity between the products offered on the supply side and that which is required by the SME market; and (iii) a gap between the minimum requirements for a business loan and status especially on the issue of formality of the majority of SMEs. This means that even registered microenterprises are less expected to have access to credit.

Moreover, a large fraction of the SMEs are completely omitted from the financial market.

Even those SMEs that are in the recognized market, a further difficulty faced by entrepreneurs trying to access finance is that mostly government banks are less set up to cope with small loans. For instance, only 59% of small and medium enterprises had any credit products as compared to 82% for large firms. Micro finance institutions, on the other hand, do have structures in place for smaller loans, but the loans are at high interest rates that many small businesses are unable to afford. Other factors constraining SMEs' access to finance include the lack of business managerial experience and skills, inadequate information on available products, comparatively low levels of financial knowledge, poor business plans and other external factors.

The literature review shows that there are a various sources of credit for SMEs. Though, it is not possible to govern with any degree of correctness whether the financing available is adequate to meet the requirements of the SME sector due to the lack of information, particularly with regard to the demand side and the specific reasons for the lack of access. Hence, more exploration is needed in this area to:

- (1) ascertain the specific requirements of the SME sector when it comes to financing and
- (2) whether the financing available meets those needs in terms of both “quantity” and “quality”.

There is a probability that there is adequate credit being made available, but the terms and conditions under which it can be retrieved are not favorable for the SME sector it is envisioned to serve. In other words, there is sufficient “quantities” of funding available, but the “quality” of funding, i.e. the product design/services being offered, does not match the requirements of the sector. In this case, the policy response should not be designed to increasing the amount of credit available to the sector, but should involve revisiting the product offering of the credit already accessible and ensuring that it meets the needs of the SME sector it is anticipated to serve.

Another possibility that needs attention is that in which credit is available and sufficient to meet demand, but the lack of access is attributable either to the specific features of the SMEs applying for the loan or the lack of awareness that the funding is available. In these instances, the policy response required would necessarily be different from that of increasing funding available, or indeed, changing product design/service offering. If there is, in fact, a shortage of finance, quantity of loanable funds, the Government can increase the supply of funds through funding of existing agencies like the National Youth Development

Agency (NYDA), Khula and other Government owned institutions. With regard to the scenario where sufficient credit is available, but the terms and conditions of availing the financing is problematic for the SMEs due to poor product design/service offering, then interventions will need to address this particular deficiency. With respect to private entities, it is anticipated that competition and the desire to increase returns from catering to this segment will improve product design and services offered. For Government funded programmes, the evaluation and monitoring of the various schemes and programmes on a regular basis should help the Government to keep well-informed of the applicability of the various programmes and schemes.

Thirdly, with respect to situations where credit is available, but availability is constrained by SME specific factors, then involvements will have to be targeted to deal with these specific SME characteristics. To summarize, the characteristics being referred to relate to: (1) the lack of information available with respect to the business, or where there is information available the information is of very poor quality;

(2) the lack of collateral; (3) the failure to avail financial services, including credit, due to various insights small business owners have of the requirements needed for availability; (4) the reduced level of managerial competence and skills of the small business owner; (5) the age of the enterprise; and (6) the legal status of the enterprise.

The significant recommendations arising from the study are interventions that focus on:

(i) Increasing the levels of formality of SMEs – this can be achieved through the compulsory registration of SMEs that have not yet registered, at minimal or no cost to the SME.

(ii) Training and capacity building – building on current programs and establishing new ones if warranted to improve the levels of managerial competence of the small business owner.

(iii) Establishing of a Government department to deal specifically with SMEs, entrepreneurship and support to this sector.

(iv) The monitoring and evaluation by Government of its SME funding programmes on a regular basis. This will help the Government keep abreast of the applicability of the various programmes and schemes. The immediate objective of the evaluation of current programmes and schemes is identifying the reasons why awareness and uptake has been low.

Securities and Exchange Commission, Washington in their research Entrepreneurial Optimism, Credit Availability, and Cost of Financing: Evidence from U.S. Small Businesses

1. Managerial Optimism

The role of managerial optimism and overconfidence in a firm's investment and financing decisions has been a subject of an ongoing debate in the corporate finance literature.

Following Roll's (1983) pioneering study on the role of managerial overoptimism in corporate acquisitions, the merits of managers' possible departure from full rationality, and behavioral corporate finance in general, have been examined in a number of theoretical and empirical studies.

Heaton (2002) is the first to introduce a behavioral capital structure model. He suggests that because optimistic managers systematically attach higher probabilities to good firm performance than the capital market, they believe that the capital market undervalues the firm's risky securities. Thus, in an efficient market, issuing a risky security is always perceived by optimistic managers as a negative net present value event. Heaton's model thus induces a pecking order capital structure preference, where managers prefer internal cash or risk-free debt to risky debt, and prefer risky debt to equity.

Hackbarth (2008) develops a trade-off model of capital structure with optimistic and overconfident managers. His model predicts that optimistic managers choose higher debt levels and issue new debt more often. On the other hand, the optimism has also a beneficial effect in his model since it restrains managers from wasting the funds of the corporation.

However, the predictions of Heaton (2002) and Hackbarth (2008) are not novel, since they are also independently derived from the traditional agency and asymmetric information models of capital structure discussed in the previous sub-section. Thus, when testing the predictions of the behavioral capital structure models one has to control for the agency and asymmetric information explanations of the capital structure choice.

Several empirical studies examine the effect of managerial optimism on corporate investment decisions. For instance, Malmendier and Tate (2005, 2008) use the tendency of CEOs to delay the exercise of their stock options to proxy for optimism, and show that this measure correlates with the intensity of their firms' investments. Ben-David, Graham and Harvey (2007) and Sutner and Weber (2008) show that the overconfidence of top executives affects various corporate decisions using survey data. Liu and Taffler (2008) measure CEO

overconfidence with formal content analysis of CEO statements, and document that CEO optimism is positively correlated with investment activity.

A few recent studies explore the role of optimism in entrepreneurs' and, in a broader sense, individuals' decision making. Puri and Robinson (2007) creates a measure of optimism using the Survey of Consumer Finance by comparing self-reported life expectancy to that implied by statistical tables. They find that optimism is related to numerous work/life choices.

Cassar and Friedman (2007) find that overconfidence increases the likelihood that an individual will begin pursuing startup activities. However, outside of entry decisions, they do not find overconfidence to be a significant determinant of the amount of financial and human capital the entrepreneur invests in the startup or the risk of the entrepreneurial investment. Landier and Thesmar (2009) model the effect of entrepreneurial optimism on financial contracting, particularly the choice of short-term debt and long-term debt and find supporting evidence using a France survey data. They measure optimism using entrepreneurs' demographic characteristics, such as their age, gender, and education.

2. Capital Structure

Over the years, numerous theories on why and how firms borrow money have been proposed. Among those, there are generally three explanations of a firm's capital structure decisions that have received the most attention from finance scholars: the Pecking Order Theory (Myers and Majluf, 1984; Myers, 1984), the Trade-Off Theory (Jensen and Meckling, 1976; Jensen, 1986; Hart and Moore, 1994), and the Market Timing Theory (Baker and Wurgler, 2002). The pecking order theory is based on asymmetric information arguments and predicts that firms turn to the sources of financing with the lowest degree of information asymmetry first.

Thus, according to this theory firms utilize retained earnings first, then use debt financing (which has a smaller adverse selection premium than outside equity), and use outside equity as a last resort. On the other hand, the trade-off theory asserts that the decision to use debt is based on the trade-off between the benefits from debt (tax deductibility of interest payments, disciplining effect on managers) and costs associated with it (costs of financial distress, shareholderdebtholder conflicts). Lastly, the market timing theory, which is the newest of the three, argues that the firm issues equity in hot equity markets and debt in cold equity

markets. The voluminous empirical literature on capital structure has so far yielded mixed results on which theory best explains a firm's capital structure decision.³ A recent study by Frank and Goyal (2008) documents six core factors that significantly affect capital structure decisions: mean industry leverage, market-to-book ratios, tangibility of assets, firm profits, firm size, and expected inflation.

While the overwhelming majority of empirical studies involve publicly traded firms, very few focus on small private firms. These limited studies typically focus on venture capital backed firms (Cumming, 2005). Most recently, Cole (2009) investigates the capital structure decisions of small private U.S. firms. He finds that firm size, age, and profitability are negatively related to firm leverage and firm liquidity, risk and tangibility of assets are positively related to firm leverage.

Small Business Lending

Despite the fact that they have few assets and cannot offer much collateral, small firms tend to borrow significant amount of money (for example, Berger and Udell (1998) report that roughly 50% of the small firms' financing comes in a form of debt), and concentrate their external borrowing from commercial banks (Petersen and Rajan, 1994; Berger and Udell, 1998). The asymmetric information problems that plague the relationship between small businesses and lenders (Stiglitz and Weiss, 1981) might prevent a good firm from obtaining much needed financing. These problems could be mitigated in several ways, such as relationship lending, collateral requirements, choice of loan terms and maturity, use of bank guarantees, etc. Probably the main way of alleviating the moral hazard and adverse selection issues generated by information asymmetry is by relying on relationship lending. The benefits of relationship lending are well-documented in the literature. For example, a number of studies find that building close ties with lenders results in larger availability of credit (Petersen and Rajan, 1994; Elsas and Krahn, 1998; Scott and Dunkelberg, 1999; Machauer and Weber, 2000); Cole (1998) documents that a pre-existing relationship between a company and a lender (for example, savings accounts and financial management services) increases the likelihood that the lender will extend credit, but the length of the relationship does not play a significant role.

Both Petersen and Rajan (1994) and Cole (1998) find that small firms with many banking relationships are less likely to obtain credit, suggesting that private information about a firm is less valuable when this firm uses multiple sources of credit. In addition, small firms with

longer bank relationships pay lower rates (Berger and Udell, 1995; Harhoff and Korting, 1998; Scott and Dunkelberg, 1999; Degryse and van Cayseele, 2000), have to provide less collateral (Berger and Udell, 1995; Harhoff and Korting, 1998; Scott and Dunkelberg, 1999), and have greater protection against the interest rate cycle (Berlin and Mester, 1998; Ferri and Messouri, 2000).

The literature has also established that the distance between borrowers and lenders and the communication method (in person or not) matter in small business lending. For instance, Peterson and Rajan (2002) show that distance decreases with the borrowing cost while arm's length communication method (phone and mail) increases the borrowing cost. This is presumably because local banks are better at collecting "soft" or private information. Similarly, the in person communication method allows banks to better observe the true quality of the firm. Bank type also plays a role in relationship lending. Berger, Saunders, Scalise, and Udell (1998) and Berger, Miller, Petersen, Rajan, and Stein (2005) show that smaller banks are better at collecting soft information and dealing with informationally-opaque borrowers than larger banks. Cole, Goldberg, and White (2004) find that small banks rely on information from preexisting relationships, while larger banks use more standard criteria obtained from financial statements when making lending decisions.

Again, like in the case with capital structure, very few studies have examined the role that entrepreneurial optimism plays in small business lending.

for the Small Business Service , The Impact of Perceived Access to Finance Difficulties on the Demand for External Finance , Final Report, 2007, Centre for Enterprise and Economic Development Research ,Middlesex University, London by Dr Peter Wyer, CEEDR, Dr Ignatius Ekanem, CEEDR, Professor David North, CEEDR, Professor David Deakins, University of Paisley :

The purpose of this review was to investigate the extent to which perceived difficulties concerning access to finance discourage potential and existing entrepreneurs from demanding external finance. It focuses on evidence relating to the barriers to accessing finance that can arise because of the perceptions that 'would-be' and existing entrepreneurs have regarding their chances of success in applying for external finance, the process involved in obtaining it, and the various 'costs' to them and their business of being successful.

The review has had the following aims: (i) to provide a comprehensive overview of the

existing research literature and understanding of the status quo relating to the perceived difficulties of accessing finance; (ii) to identify key policy relevant issues; and (iii) to outline future research and policy agendas. The review encompassed theoretical writings on the subject, empirical work including quantitative survey methods as well as qualitative research based on case studies, and various data sources/sets which are likely to repay further analysis. As well as drawing upon relevant research evidence from the UK, the review has also used literature relating to a number of developed economies, notably the USA, Canada, Scandinavia, and other European Union countries.

Difficulties in Acquiring Finance

Thorsten Beck in his paper, Financing Constraints of SMEs in Developing Countries: Evidence, Determinants and Solutions, May 2007, surveys empirical research that shows that small and medium enterprises (SMEs) are more constrained by financing and other institutional obstacles than large enterprises, exacerbated by the weaknesses in the financial systems of many developing countries. They use the concept of the access possibilities frontier to explain how difficulties in managing risk and transaction costs involved in SME lending makes financial institutions and markets so reluctant to reach out to this group of enterprises, especially in developing countries. Also discuss different policies and reforms that can entice financial institutions and markets to lend to SMEs and comment on the role of the government in institution building, providing the regulatory framework and undertake market-friendly activist policies. However, they also point to pitfalls in government's involvement in SME financing.

Barriers Encountered during Micro and Small Business Start-up and Recommendation for the change:

This research examines the position of micro and small businesses in the UK economy and the factors which influence their conception, their survival and their extinction. These factors are found in both the external and internal environment of the small business, with the literature placing particular emphasis on the psychological characteristics of successful entrepreneurs. In consideration of such factors, this chapter begins by looking at the concepts involved in the investigation of small businesses and the current position of small businesses in the UK, followed by a thorough review of the recent literature pertaining to small businesses and those involved in the start-up and running of small business.

The literature relating to small business originates from three main disciplines: economical, sociological and psychological. The majority of that literature is based on studies conducted in the USA, which has implications for the interpretation of such studies from both a legal and economic viewpoint. Although they provide a significant contribution to our understanding of the processes involved in small business formation, they do not afford a direct insight into the situation of small businesses in the UK and caution must be taken when considering their findings.

This chapter will put forward practical recommendations, based on the experiences of potential and new micro and small business owners, for increasing the success rate of new micro and small businesses in the North West. These recommendations, if implemented, would provide new business owners with greater internal control of their enterprise and more appropriate external support, in emotional, financial and practical terms.

They are directed towards any individual or organisation involved in the initialization and formation of new businesses in the North West, and those concerned with the subsequent success and growth of such enterprises. This includes service providers (e.g. Business Links), financial institutions (e.g. Banks), government regulators (e.g. Employment Service), and potential and new micro and small business owners.

Recommendations will be considered in three main categories: Financial, Training, and Support and Advice, Financial Recommendations, Employment Service Regulations

The Employment Service needs to recognize that new business formation is a valid alternative to formal employment. Currently, attendance on a Business Enterprise Programme renders an individual 'unavailable for work'. This means that, not only is their entitlement to benefit brought into question, but they are expected to continue with formal job search throughout the duration of the course. New business formation is a time consuming and demanding process, potential new business owners cannot focus all their efforts on the successful initialization of such an enterprise if they have to maintain a facade of job search activities. The Employment Service is placing undue pressure on potential new business owners who claim benefits, thereby inhibiting their chances of successful enterprise creation rather than assisting it.

Potential new business owners who are claiming benefits should be allowed a 'permitted period' in which to initialize a new enterprise. They could prove their intent by attendance

on a Business. Enterprise Programme and the production of a comprehensive business plan, with nonattendance or failure to produce a business plan resulting in individuals being deemed 'unavailable for work'. This would satisfy benefit regulations and provide potential new business owners with the time to discover if their business idea is a viable proposition. Those who choose to withdraw from new business formation on completion of a business plan should not be penalised, while those who decide to continue should be allowed a reasonable time for their enterprise to become operational.

Government and European Grants

Potential and new micro and small business owners need to be better informed about available grants and how they can be applied for. Co-ordination of available grants could be achieved through a central point of contact with the agencies involved. This would be a source of impartial advice relating to alternative funding sources and practical help for those wishing to pursue grant applications. The agencies who administer such grants should provide more open information on what is available, what is required of applicants and impartial advice on how to complete application forms. Ideally, agencies or a central contact point would provide assistance throughout the application process. This process needs to be faster and less bureaucratic if it is to effectively support the new micro and small businesses it is aimed at.

New Business Start-up Grants

These grants are paid in equal instalments over a six month period and are a life-line to many new micro and small businesses. However, six months is a very short period of time for a new business. Difficulties with obtaining credit from suppliers and payment from customers frequently leads to substantial cash-flow problems in the first year of new business operation. The majority of new business owners who were in receipt of start-up grants, felt that they would have benefited from payments over a twelve month period. This would provide a more stable financial base for the first year of business operation, ensuring a high survival rate and increasing the potential for early growth.

In addition, some new business owners believed that the current system for the administration of start-up grants was not flexible enough to accommodate the needs of new business owners during the initialization process. In some circumstances new business owners needed a lump sum, rather than ongoing payments, to be used as matched funding when approaching financial institutions for venture capital. This could be administered as an interest free loan, that is 'paid back' over a six or twelve months period by the start-up grant monies, that would have be paid to the new business owner on a weekly basis during that

time. Business failure would result in the balance, which remained outstanding at that time, becoming due for repayment by the new business owner and, if where appropriate, subject to interest if the loan could not be paid within a reasonable time scale.

Financial Institutions

The wide variety of approaches taken by banks to micro and small businesses was criticized heavily by potential and new business owners. Whilst acknowledging that banks work in open competition, they believed that greater uniformity in services and rates would be of benefit to all those involved. The way in which financial institutions allocate credit and loans was also felt to be discriminatory against micro and small businesses, with business owners being offered substantial amounts of money via personal loans and credit card but being refused relatively small business loans.

In addition, several new business owners reported that they were unaware that financial institutions would only provide 50% of the start-up capital required, even on presentation of comprehensive business plans. Plus, the decision to lend money was taken by someone who they felt was unqualified to determine whether or not they had a potentially successful business plan.

Financial institutions are a significant source of start-up capital for new micro and small businesses. They need to have clear guidelines available to potential new business owners that state exactly what they are willing to provide in terms of start-up loans. If they can provide finance via personal loans to an individual, then they should be able to provide that finance via business loans. Their current approach undermines the confidence of new micro and small businesses owners and, overall, such institutions give the impression that they place little value on the creation of such enterprises. As the number of new micro and small businesses in the North West increases, financial institutions must evolve their services to reflect the important part these enterprises play in the regeneration of the local economy.

Cash-flow

One of the main reasons new micro and small business fail, or experience great difficulties in their first year of operation, is their inability to manage cash-flow effectively. This situation frequently arises because of external factors beyond the control of the business owner, e.g. inability to secure credit with suppliers while having to provide extensive credit for customers. Although little can be done by new business owners to obtain credit from their suppliers, they can request that customers pay 'up front' for equipment or materials.

These items would by law become the property of the customer at the time of purchase, so minimal risk is involved from the customers' viewpoint. However, it would substantially reduce the risk on new business owners and cash-flow difficulties.

The majority of cash-flow difficulties appear to arise from customers failing to settle their accounts in accordance with the agreed credit terms. This places new business owners in a very difficult situation, they cannot afford to upset their customers by continual harassment for money yet they cannot afford to allow such monies to remain outstanding. The worst offenders in terms of payment seem to be large organizations, with the degree of difficulty in obtaining payment rising with the size of the organization. This may result from increasing bureaucracy in large companies, which delays payments simply because of the processes involved in settling accounts. However, this does not absolve them from their role in the potential destruction of many new businesses. Large organizations should not be in the business of destroying other businesses and they need to have policies in place which protect micro and small businesses from such treatment.

Training Recommendations

- **Business Courses**

The vast majority of potential and new micro and small business owners believed that the Business Enterprise Programmes (BEP), currently run by service providers, were extremely valuable and of significant benefit to those interested in the initialization of a new enterprise. However, those who had previous managerial or business experience found that, although the current course was a good starting point, they needed more in-depth courses. The type of additional training required included marketing, accounting, and tax. It was suggested that in order to avoid the need for extra courses, different levels of BEPs could be offered to potential new business owners. These would cater for those with a business or managerial backgrounds who wish to have a greater understanding of the principles behind the business functions discussed, e.g. taxation, and those with none or only a rudimentary business knowledge who feel that they can only deal with the basics. New business owners also requested that, where sections of the course were run by external specialists, it would be useful if they did not just discuss generalist issues but were able to discuss individual problems. It was reported that although the course increased the general knowledge of new business owners, it did not help in addressing the specific problems they faced in the initialization of their own enterprise.

- **Information Technology (IT)**

The discussion of IT on BEPs is extremely limited and was felt to be a major flaw of the course. Many new business owners reported that they needed up-to-date IT skills to compete effectively in the market place, with the emphasis on Internet and Web-site training. In addition, new business owners request access to impartial advice on how and where they could link-up to the Internet and related services. Manchester has its own web page which could be utilized by service providers in IT training and could possibly be used to promote new businesses in the North West. As this web page is available to potential customers' worldwide, access to such a site could substantially increase the growth potential of those businesses who wish to operate in the global market place.

- **Recruitment**

The expansion of any new business is not only dependent on increasing demand but on being able to meet that demand. The recruitment of suitable employees had proved to be a significant barrier in the ability of new business owners to develop their enterprises. For some, the problem lay directly in their inability to identify potential employees, reporting that they just could not find suitable and willing employees. If such employees could be located, problems arose in the training of such workers. New business owners, who were in a position to take on new employees, were overworked and did not have the time to train new workers. This situation was compounded by a lack of appropriate external training courses. Consequently, the growth potential of many new micro and small businesses was severely restricted. New micro and small business owners need access to recruitment advice, as well as assistance in the training of new employees. If new business owners were encouraged, through government support, to take on employees sooner than they would have more time available to train them personally. This could be a scheme linked in with the governments commitment to placing young people in employment. It could enable new businesses to expand earlier, while providing job training and work experience for young people. Whilst not problem free, this could be a starting point for new business growth.

Support and Advice Recommendations

- **Mentors**

Many new micro and new business owners felt isolated, especially in times of crisis. They

felt that they had no one to turn to who had similar experience and who fully understood their predicament. It was suggested that mentors would be one way to counteract this situation by providing ongoing one-to-one support. Some said they would happily pay for such a service, as it would save money in the long-term, and enable them to avoid the pitfalls encountered by their mentor. A mentor in this situation would provide a very similar function to an organizational mentor, protecting and guiding their charge through the barriers and problems they themselves have previously experienced. If such a service could be initiated, it could be perpetuated by those who use it, with recipients passing on their knowledge to future new micro and small business owners.

- **Networking Groups**

New micro and small business owners felt that it would be particularly useful to have regular contact with other enterprise owners in similar business sectors to themselves. Such groups would provide a forum for the discussion of problems and the sharing of both positive and negative experiences. The availability of these groups could be promoted via a service provider newsletter, the Internet and the local press.

- **Premises**

Isolation was an issue for a number of new micro and small business owners, with working alone at home the only option for those who could not afford or locate suitable premises. The lack of new start-up premises was also recognized by service providers, a situation which is particularly poor in the North West. Small, reasonably priced start-up premises would provide new business owners with a place of work outside of the home environment. This could be in the form of small individual work-stations within a larger open plan environment, enabling new businesses to share services thereby reducing costs. In addition, it would provide a supportive environment with others in a similar position and access to extended business networks. The lack of suitable premises for small businesses in the North West has served to restrict the growth of some new micro and small businesses. New business owners experienced substantial difficulty in locating affordable premises that met their requirements, and for some, the search ended in the decision to remain as they were. If the growth and development of new micro and small businesses in the North West is to be effectively encouraged, this situation needs to be addressed.

2.4 Research Gap

New micro and small businesses encounter many barriers to success and growth throughout the start-up process and their first year of operation. These barriers, erected by government agencies, financial institutions and large business organizations, are potentially life threatening to new businesses, who are particularly vulnerable during the first twelve months following their formation. New business owners also experience substantial difficulties with employee recruitment, accessing appropriate training courses, and competing in businesses environments which are becoming increasingly dependent on IT. These problems are frequently compounded by a lack of access to business network and the support they can offer in overcoming such barriers to survival and progression.

The recommendations proposed in this chapter would go some way towards improving the survival and growth rates of new micro and small businesses in the North West. However, findings presented in this report are just the first step in providing a contribution to our understanding of the experiences of new micro and small business owners during the initialization and formation of a new enterprise. The early stages of new business formation may be a critical period, in which the subsequent level of success and development of an enterprise is determined. If the impact of the barriers encountered in the first year of operation, in relation to the survival and growth of new micro and small businesses are to be fully understood, further longitudinal in-depth study is necessary.

Chapter – 3

Research Methodology

Chapter contents:

3.1 Introduction

3.2 Problem Identification

3.3 Objectives of the Study

3.4 Scope of the Study

3.5 Rational of the study

3.6 Sampling

3.7 Sources and Collections of Data

3.8 Methodology

3.9 Hypothesis

3.10 Further scope of the study

3.11 Limitations of the study

3.1 Introduction:

Micro, Small and Medium Enterprises play a vital role in the industrial development of any country. Importance of the MSME sector is well documented world over as it makes significant contributions in gratifying various socio-economic objectives such as growth in employment, output, promotion of exports and entrepreneurship. In spite of contributing a lot in the growth of economies, MSMEs across the globe are plagued with generic issues like lack of skilled labour, technical support and infrastructure problems. Among all other issues, one of the most important issues is unavailability of finance from formal sources. Unavailability of proper and adequate finance in time from formal sources, creates lots of issues for the entrepreneurs. Indian entrepreneurs facing this problem in large extent.

Relevance

This research reports the results of a study aimed at identifying the types of financial and banking products/services that small businesses need and value the most. The study also examines aspects of quality and manners of service delivery that small business establishments consider as important and expect to be provided by their banks. Finally, it compares small business owners'/managers' views regarding overall quality of services of community/local banks vis-a-vis that of their non-local counterparts.

3.2 Problem Identification:

After careful investigation of literature, researcher found that there is lack of research in bank finance to entrepreneurs especially in the Gujarat. Various researchers have found the different aspects of financing gap. But among all, the bank finance is considered as the primary source of finance and there is urgent need to analyse the reasons of unavailability of bank finance to the entrepreneurs. By considering this aspect, researcher has finalized the title as under:

Critical Evaluation of Financial Services Provided for Marginal Entrepreneurs by Selected Banks in Gujarat

3.3 Objectives of the Study:

By considering the importance of bank finance to entrepreneurs, following main objectives are set:

- To examine and analyze the status of bank finance to entrepreneurs against the set benchmark under policy guidelines.
- To identify major issues in bank financing - from demand side constraints and supply side constraints.
- To analyze responses sought from entrepreneurs and bank officials in regard to the problems being faced and related issues in bank finance and ascertain viability of measures suggested by them to overcome from the constraints.
- To take stock of extant policy framework and various provisions for financing to entrepreneurs and review them in the light of observations of the study.
- To analyze primary and secondary data for observations and to offer recommendations to enhance accessibility of bank finance to entrepreneurs.

3.4 Scope of the Study:

This study is based on the availability of bank finance to entrepreneurs of the Gujarat state from selected banks. Thus the scope of the study is limited to the entrepreneurs who belong to Small and Medium Enterprises [SMEs] situated at Gujarat state only. Further, the need of bank finance is accessed on the basis of their efforts of last three years. It can be summarized that the study contains the limited scope of bank finance to SMEs of Gujarat state from selected banks.

3.5 Rational of the Study:

This study aims to provide an assessment of the bank finance availability to entrepreneurs in Gujarat state. The chapters in this research highlight the detailed analysis on the base of data collected from entrepreneurs and bank managers. IT shows the demand and supply side constraints of availability of bank finance. The study evaluates the consequent gap in the financing needs of entrepreneurs. So the study explores potential interventions to address the lack of access to bank finance for entrepreneurs. Given the interdependence between banks and small businesses, and the importance that small businesses have to both local and national economies in terms of job creation and economic development

stimulation, it is imperative for banks to better understand the nature of financial and banking needs and priorities of

this segment of their market. It is in pursuit of this objective that the present study was designed.

Specifically, the purpose of this research is to report the results of a study designed:

(a) to assess and identify the types of financial and banking products/services (e.g., depository services, merchant accounts, loan products, etc.) that small businesses need and value the most, and

(b) to identify the aspects of quality and manner of service delivery (e.g., personal attention, knowledge of business, timely response, etc.) that small businesses consider as important and expect to be afforded by their banks.

The study also will compare small business owners'/managers' perceptions regarding the overall quality of bank services relative to locally owned and managed banks versus non-local financial institutions.

Finally, a there will be comparison of the overall quality of service between community banks and non-community banks, as perceived by their respective small business clients, will be showed in a statistically significant difference.

The results of this study will help banks better understand the true banking and financial needs of entrepreneurs and small firms. This should assist them to more effectively serve and meet the needs and concerns of this important segment of their banking market.

Further, the study results provide financial institutions with the ammunition they need to better assess their own strategic strengths and weaknesses, identify positioning gaps in their commercial markets, and seek and secure a stronger competitive position vis-a-vis their rivals in those markets.

Finally, the results indicate that while small firms define quality of banking services in more or less similar terms, their product/service needs are divergent and tend to be a function of the structural and idiosyncratic differences in their industries/operations.

The related information of this study could go a long way in helping banks and financial institutions to not only do a more effective job of segmenting their small business market,

but also more effectively differentiate and promote their products/services to their small business clients

3.6 Sampling:

The study aims to analyze the availability of bank finance to entrepreneurs holding SMEs of Gujarat state from the selected banks. So population of the study consists of all the entrepreneurs and bank managers across the country. For convenience, researched has focused on the entrepreneurs of Gujarat state only. For that purpose, entrepreneurs from the nine different SME clusters available in Gujarat state were selected. Clusters are based on the list available on SME Clusters in India by UNIDO. So, on the basis of cluster sampling, total sample size consists of 515 entrepreneurs. Table 2.1 below shows the different SME Cluster situated in Gujarat state. The main places of which are Rajkot, Ahmedabad, Vadodara, Surat, Bhavnagar and Kutch. On the other hand, for bank managers, researcher has selected top five banks on the basis of SME lending in last five years. Selected banks are – State Bank of India, Punjab

National Bank, Bank of Baroda, Bank of India and Small Industrial Development Bank of India [SIDBI]. Total 33 responses received from the branches of above banks spread in Rajkot district. Table 2.2 shows the selected banks and number of responses received from each bank manager of Gujarat state.

Table 3.1 Selected SME Clusters and Number of Respondents from each Cluster

Sr. No.	Clusters		Number of Respondents
1.	Oil Mills	rajkot	70
2.	Textile Printing	ahmedabad	22
3.	Flooring Tiles	rajkot	58
4.	Wall Clocks	kutchh	36
5.	Diesel Engines	vadodara	108
6.	Electric Motors	bhavnagar	36
7.	Castings and Forgings	surat	112
8.	Machine Tools	ahmedabad	45
9.	Diamond Processing	surat	28

Total	515
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Table 3.2 Selected Banks for analysis

Name of City/Town	SBI	PNB	BOB	BOI	SIDBI	TOTAL
bhavnagar	2	0	1	1	0	4
vadodra	2	0	1	2	0	5
kutch	2	0	1	1	0	4
ahmedabad	5	1	1	1	0	9
rajkot	15	4	5	5	0	30
surat	2	0	1	2	0	5
TOTAL	28	5	10	12	0	57

3.7 Sources and Collection of Data:

For this study, primary and secondary data are used. To collect the primary data from respondents, researcher has used the structured questionnaire. Separate questionnaires prepared for the entrepreneurs and bankers. For the collection of secondary data, published annual reports of selected banks, data available in RBI website and other authenticated sites and documents are used.

3.8 Methodology:

This study is analytical in nature. After collecting the data from primary and secondary sources, thorough analysis is done from various aspects. Further, to test the demand side and supply side hypothesis of the study, researcher has used the Chi Square technique. On the basis of same, findings are presented.

3.9 Hypothesis: Research has assumed following hypothesis broadly classified from perspectives of entrepreneurs which are as under:

- From the perspective of entrepreneurs (Demand side):

H1: Nature and size of business and availability of bank finance are not related significantly.

H2: Gender, educational qualification and experience level of entrepreneur and availability of bank finance are not related significantly.

H3: Location and cluster of business and availability of bank finance are not related significantly.

H4: Perception regarding financing process and availability of bank finance are not related significantly.

- From the perspective of bankers (Supply side):

H1: Small ticket size and high transaction cost and availability of bank finance are not related significantly.

H2: Generation of the entrepreneur and availability of bank finance are not related significantly.

H3: Credit rating of the enterprise and availability of bank finance are not related significantly.

H4: Marketing efforts and product branding and availability of bank finance are not related significantly.

3.10 Further Scope of the Study:

Present study is limited to access of bank finance to entrepreneurs of Gujarat state only. So findings present very limited scope. To expand the scope of study, a huge sample size with expanded geographical area is required and even more banks should be included to know the supply side constraints. Even further analysis of the study is possible through more scientific statistical tools and techniques.

3.11 Limitations of the study:

The study attempts to capture the current status of availability of bank finance to the entrepreneurs of Gujarat state from selected banks. Following are the major limitations of the study:

- This research has been carried out on the basis of primary as well as secondary data, which have inherent limitation.

- While administering the questionnaires, sometimes it happens that respondents either hesitate to respond questions or do not get enough time to interact and provide distorted data that fail to draw realistic findings.
- Poor responses from certain clusters and respondents as compared to others are also one of the constraints.

However, sincere efforts have been made to attain objectives of the research without adverse impact of limitations on overall assessment of the hypothesis.

Chapter - 4

Data Analysis

Chapter contents:

4.1 Introduction

4.2 Analysis of data for entrepreneurs

4.3 Analysis of data for bank mandgers

4.4 Interpretation of Data

4.5 Testing of Hypothesis

4.6 Summary

4.1 Introduction:

Accessibility of sufficient and in time finance is the vital issue for any type of business organization. Especially for entrepreneurs who belongs to first generation, finance plays the important role for them.

Bank finance being one of the important source of finance for them, the same has been selected for this study. In this study, total nine clusters have been selected belongs to Gujarat. Gujarat considered as an industrial hub and contributed a lot in industrial sector especially with the help of marginal entrepreneurs.

To collect the data from selected enterprises, a structured questionnaire has been developed. Analysis of primary data begins with the data collected from the selected enterprises in form of questionnaire.

4.2 Analysis of Questionnaire for Entrepreneurs:

After reviewing the available literature and after prudently examination for the selected problem, a questionnaire has been formed to collect and assemble the required data from the enterprises.

Questionnaire is divided in six categories to make the process of analysis easy. The six categories are;

- Information about Enterprise.
- Information about Respondent.
- Information about Banker.
- Information about Investment and Borrowing.
- Past Experience of Bank Loan.
- Problems in Obtaining Bank Loan and their Reasons.
- All these categories have been analyzed separately as under.

4.2.1 Information about Enterprises:

Questionnaire begins with the basic details about the enterprise. This section includes the details like name of the enterprise, address, contact details, cluster with which it is involved, nature of organization, annual turnover and age of the organization.

Analysis begins with the place of enterprise where it is located.

Following table 4.1 shows the details regarding the place or city where the enterprise have its place.

Table 4.1 Place of Selected Enterprise

Name of Cities	Frequency	Percent	Valid Percent	Cumulative Percent
Rajkot	86	16.699	16.699	16.699
Vadodara	86	16.699	16.699	33.398
Surat	86	16.699	16.699	50.097
Ahmedabad	86	16.699	16.699	66.796
Bhavnagar	86	16.699	16.699	83.495
Kutch	85	16.505	16.505	100.00
Total	515	100.00	100.00	

The second question belongs to the cluster of the enterprise. There are total nine clusters are located in Gujarat. Out of sample size of 515 enterprises, table 4.2 shows the distribution of enterprises in connected to clusters.

Table 4.2 Selected Enterprises from Each Cluster

Clusters	Frequency	Percent	Valid Percent	Cumulative Percent
Oil Mill	57	11.068	11.068	11.068
Textile Printing	57	11.068	11.068	22.136
Flooring Tiles	57	11.068	11.068	33.204
Wall Clock	57	11.068	11.068	44.272
Diesel Engine	58	11.262	11.262	55.534
Electric Motor	57	11.068	11.068	66.602
Casting & Forging	58	11.262	11.262	77.864
Machine Tools	57	11.068	11.068	88.932
Diamond Processing	57	11.068	11.068	100
Total	515	100	100	

Table 4.3 Nature of Management of Enterprises

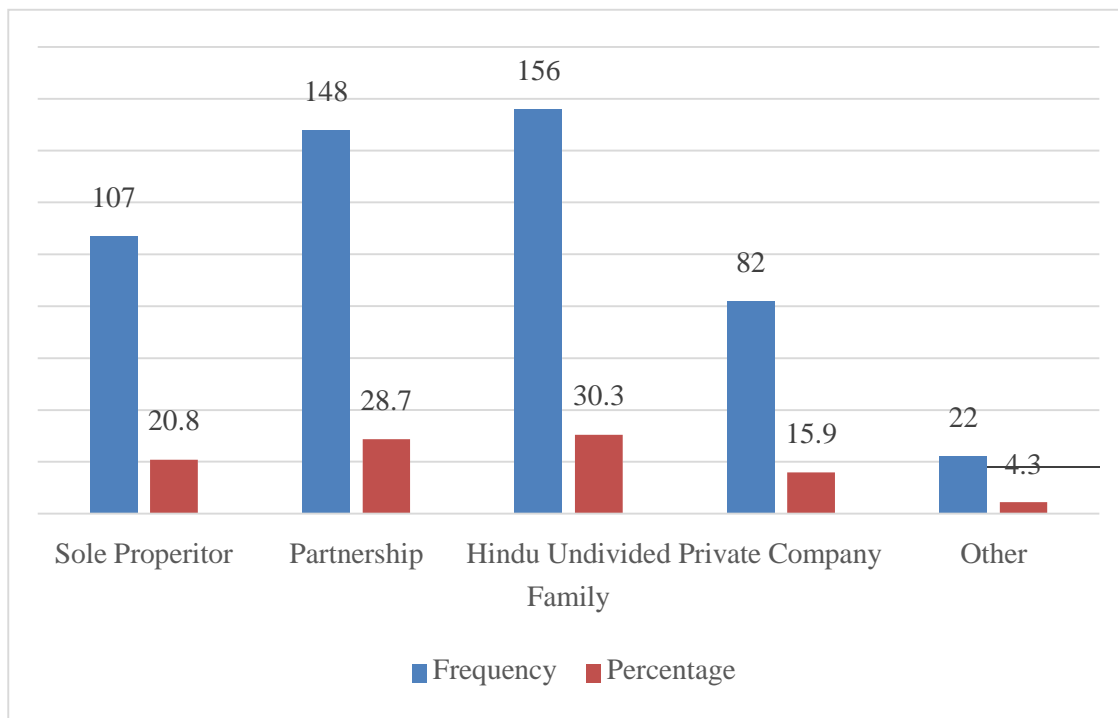
Nature of Management	Frequency	Percent	Valid Percent	Cumulative Percent
Sole Proprietor	107	20.8	20.8	20.8
Partnership	148	28.7	28.7	49.5
Hindu Undivided Family	156	30.3	30.3	79.8
Private Company	82	15.9	15.9	95.7
Other	22	4.3	4.3	100
Total	515	100	100	

Third question in the same category belongs to nature of management of enterprise.

Table 4.3 shows the details regarding the same.

Figure 4.3 Nature of Management of Enterprises

Figure 4.3, shows the details regarding nature of management of enterprises. It tells that the



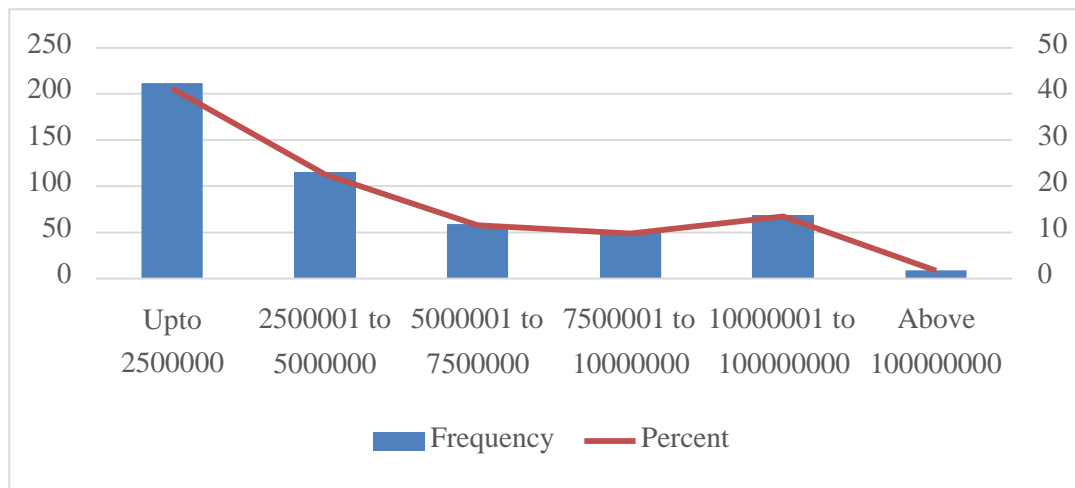
majority of the enterprises 156 (30.3%) belongs to Hindu Undivided Family that proves the values of joint family structure in contemporary time also. Second highest management style is partnership with 148 (28.7%) enterprises, followed by sole proprietorship 107 (20.8%), private company 82 (15.9%) and the least belongs to other type of management which are 22 (4.3%).

Table 4.4 Annual Turnover of Enterprises

Turnover (INR)	Frequency	Percent	Valid Percent	Cumulative Percent
Up to 25,00,000	212	41.2	41.2	41.2
25,00,001 to 50,00,000	116	22.5	22.5	63.7
50,00,001 to 75,00,000	59	11.5	11.5	75.1
75,00,001 to 1,00,00,000	50	9.7	9.7	84.9
1,00,00,001 to 10,00,00,000	69	13.4	13.4	98.3
Above 10,00,00,000	9	1.7	1.7	100
Total	515	100	100	

Next question in the same classification belongs to very significant issue of any business. The question asks about the annual turnover of the enterprise. Though it was tough for the researcher to make agree the respondent about the perfect answer of this question. Table 4.4 below shows the details about turnover of the enterprise in six categories.

Figure 4.4 Annual Turnover of Enterprises



Based on the above question, figure 4.4 below shows the annual turnover of the enterprises. The figure reveals that the maximum number of enterprises 212 (41.2%) belongs to first category of turnover i.e. up to INR 25, 00,000. Second highest enterprises comes under category of INR 25, 00,001 to INR 50, 00,000 that are 116 (22.5%). Third highest category is INR 1,00,00,001 to INR 10,00,00,000 with 69 (13.4%) enterprises, followed by 59 (11.5%) enterprises in category INR 50,00,001 to INR 75,00,000, 50 (9.7%) enterprises in category INR 75,00,001 to INR 1,00,00,000. And the least category is above INR 10, 00, 00,000 with 9 enterprises (1.7%).

Last question under the first category goes to the age of the enterprise, means the number of years of commencing the business. Following table 4.5 shows the age of selected organizations.

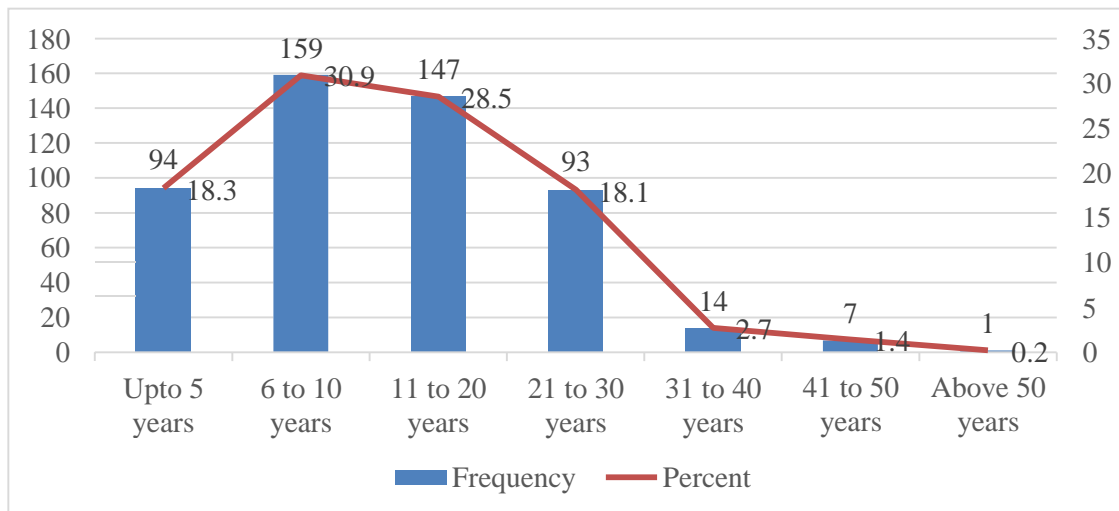
Table 4.5 Age of Enterprises

Categories	Frequency	Percent	Valid Percent	Cumulative Percent
Up to 5 years	94	18.3	18.3	18.3
6 to 10 years	159	30.9	30.9	49.1
11 to 20 years	147	28.5	28.5	77.7
21 to 30 years	93	18.1	18.1	95.7

31 to 40 years	14	2.7	2.7	98.4
41 to 50 years	7	1.4	1.4	99.8
Above 50 years	1	0.2	0.2	100
Total	515	100	100	

It tells from the above table and figure 4.5 that majority of the enterprises 159 (30.9%) belongs to age of 6 to 10 years, followed by 147 (28.5%) enterprises in the category of 11 to 20 years age group. With 94 (18.3%) enterprises, first category of up to 5 years is at third position. In the category of 21 to 30 years, total 93 (18.1%) enterprises are there. Followed by 14 (2.7%) enterprises which falls in the category of 31 to 40 years and 7 (1.4%) enterprises in the category of 41 to 50 years. The enterprise older than 50 years is only one. Hence, the

Figure 4.5 Distribution of Enterprises on the basis of Age



classification of enterprises on the basis of their age given the idea about how old the organization is.

4.2.2 Information about Respondents:

The second grouping of the questionnaire asks the questions about respondents. There are total five questions in this category which tells the information of name, gender, age, total experience and educational qualification of the respondents.

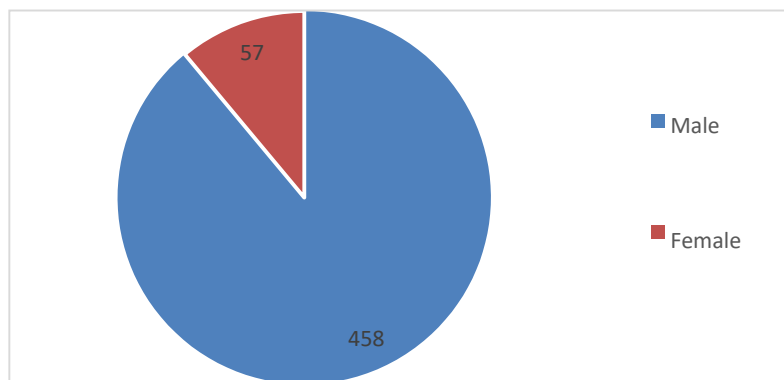
Following table 4.6 shows the gender wise distribution of respondents.

Table 4.6 Gender wise distribution of Respondents

Categories	Frequency	Percent	Valid Percent	Cumulative Percent
Male	458	88.9	88.9	88.9
Female	57	11.1	11.1	100
Total	515	100.0	100.00	

Table 4.6 and figure 4.6 gives the gender wise distribution of respondents. Out of total 515 respondents, majority of them are male 458 (88.9%) followed by female which are only 57 (11.1%). Therefore, it shows that the sector is controlled by male entrepreneurs.

Figure 4.6 Gender wise distribution of Respondents



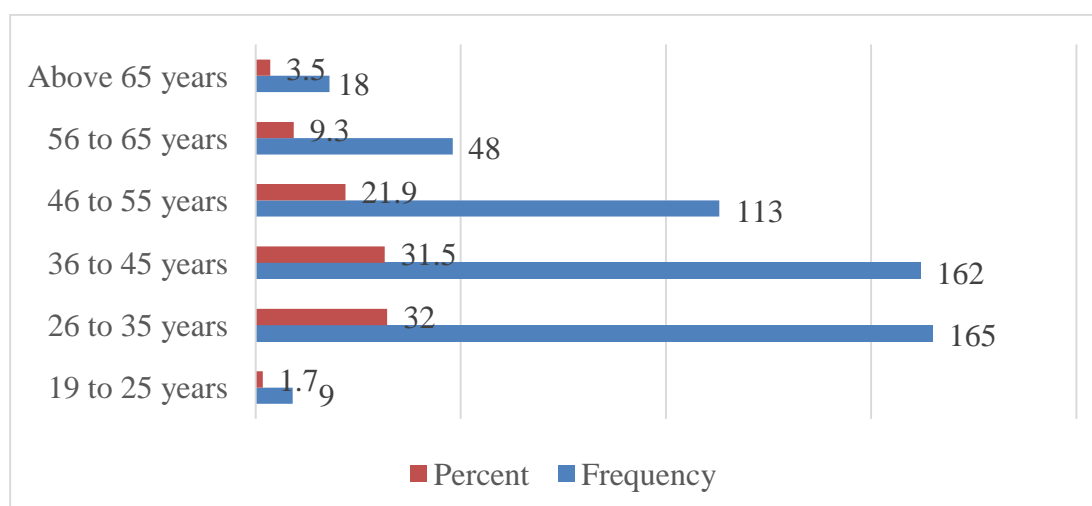
The second question in the grouping asks the age of the respondents. Following table 4.7 shows the age wise distribution of respondents in six seven groupings.

Figure 4.7 below shows the age wise distribution of respondents based on the table 4.7 above. As per the data, there are no minor respondents to 18 years. Age of majority of respondents 165 (32%) falls in the category of 26 to 35 years. Second highest category includes the age group of 36 to 45 years with 162 respondents (31.5%). 113 respondents (21.9%) comes under grouping of 46 to 55 years, followed by 48 respondents (9.3%) in the age group of 56 to 65 years, 18 (3.5%) in the older age group of more than 65 years. The least respondents 9 (1.7%) belongs to the age group of 19 to 25 years. So largely we can say that maximum number of respondents are having some experience.

Table 4.7 Age wise distribution of Respondents

Age Groups	Frequency	Percent	Valid Percent	Cumulative Percent
Up to 18 years	0	0	0	0
19 to 25 years	9	1.7	1.7	1.7
26 to 35 years	165	32	32	33.8
36 to 45 years	162	31.5	31.5	65.2
46 to 55 years	113	21.9	21.9	87.2
56 to 65 years	48	9.3	9.3	96.5
Above 65 years	18	3.5	3.5	100
Total	515	100	100	

Figure 4.7 Age wise distribution of Respondents



After age wise distribution of respondents, the next question goes to the experience of respondents. Following table 4.8 shows the distribution of respondents on the basis of their experience.

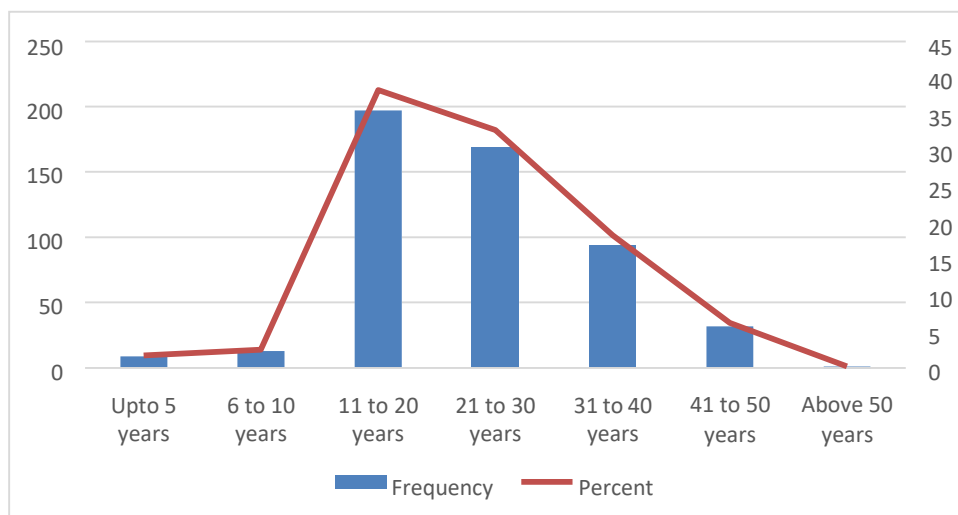
Table 4.8 Experience of Respondents

Experience	Frequency	Percent	Valid Percent	Cumulative Percent
Upto 5 years	9	1.7	1.7	1.7
6 to 10 years	13	2.5	2.5	4.3

11 to 20 years	197	38.3	38.3	42.5
21 to 30 years	169	32.8	32.8	75.3
31 to 40 years	94	18.3	18.3	93.6
41 to 50 years	32	6.2	6.2	99.8
Above 50 years	1	0.2	0.2	100
Total	515	100	100	

Based on the table above, figure 4.8 shows the experience wise distribution of the respondents below. The figure shows that maximum number of respondents 197 (38.3%) having the experience of 11 to 20 years. Second highest experience grouping is of 21 to 30 years with total 169 (32.8%) respondents, followed by 94 (18.3%) in 31 to 40 years' experience, 32 (6.2%) in the category of 41 to 50 year experience, 13 (2.5%) in the category of 6 to 10 year experience and only 9 (1.7%) in the category of least experience up to 5 years. Only 1 respondent (0.20%) is recorded with highest experience above 50 years.

Figure 4.8 Distribution of Respondents on the basis of Experience



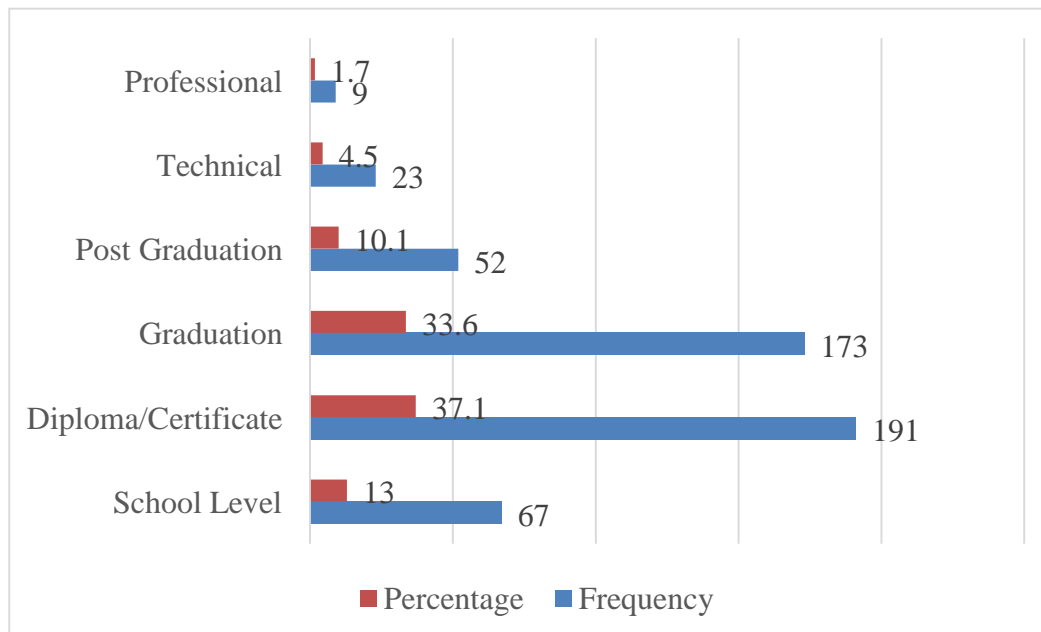
Last question in this category goes to the educational qualification of the respondents. Following table 4.9 shows the details regarding educational qualification of the respondents.

Table 4.9 Educational Qualifications of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
School Level	67	13	13	13
Diploma/Certificate	191	37.1	37.1	50.1
Graduation	173	33.6	33.6	83.7
Post-Graduation	52	10.1	10.1	93.8
Technical	23	4.5	4.5	98.3
Professional	9	1.7	1.7	100
Total	515	100	100	

Above table and figure 4.9 below displays the distribution of respondents on the basis of their education qualification. The data shows that majority of the respondents 191 (37.1%) have either diploma or certification. Second highest grouping comprise of 173 (33.6%) respondents with graduation degree. While the respondents with education up to school level are 67 (13%), followed by 52 (10.1%) post graduates and 23 (4.5%) with technical education. Only 9 (1.7%) respondents have professional qualification.

Figure 4.9 Distribution of respondents on the basis of Education



4.2.3 Information about banker of the Enterprise

Third grouping of the questionnaire is based on the banker of the enterprise. This grouping comprises of four questions, which contains the number of bank account, name of main banker, satisfied with service quality and procedures of bank and satisfied with the behaviour of bank employees. Therefore, this section is very stimulating from any bankers' point of view, as they would be able to know about what enterprises thought about them. First question arises with the number of bank accounts. Following table 4. 10 shows the data regarding bank accounts.

Table 4.10 Number of Bank Accounts held by Enterprise

Accounts	Frequency	Percent	Valid Percent	Cumulative Percent
Up to 2	208	40.4	40.4	40.4
3 to 5	300	58.3	58.3	98.6
More than 5	7	1.4	1.4	100
Total	515	100	100	

The table above and figure 4.10 shows the distribution of enterprises on the basis of number of bank accounts. As per the data, maximum enterprises 300 (58.3%) held 3 to 5 bank accounts. Whereas 208 (40.4%) of enterprises held bank accounts up to 2. The enterprises who have more than 5 bank accounts are 7 (1.4%).

Figure 4.10 Distribution of Enterprises on the basis of Number of Bank Accounts

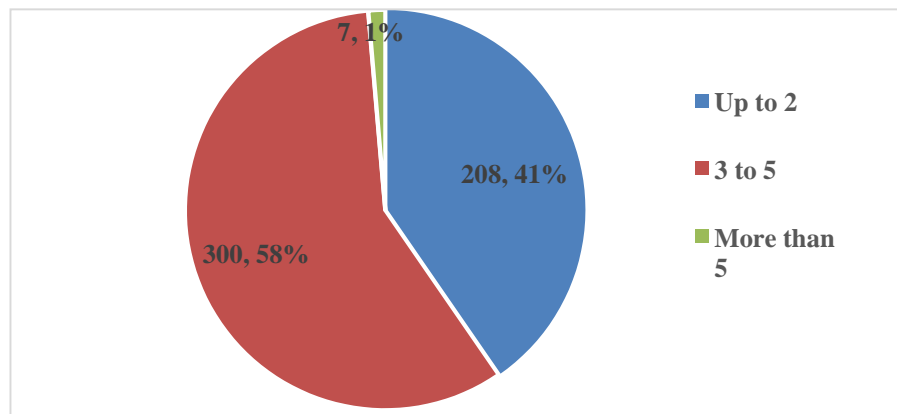


Table 4.11 Banker of Enterprise

Banks	Frequency	Percent	Valid Percent	Cumulative Percent
AXIS	41	8	8	8
BOB	46	8.9	8.9	16.9
BOI	27	5.2	5.2	22.1
Co-operative	42	8.2	8.2	30.3
Federal	16	3.1	3.1	33.4
HDFC	58	11.3	11.3	44.7
ICICI	37	7.2	7.2	51.8
KOTAK	23	4.5	4.5	56.3
KV	10	1.9	1.9	58.3
OBC	27	5.2	5.2	63.5
Dena Bank	7	1.4	1.4	64.9
PNB	70	13.6	13.6	78.4
SBI	105	20.4	20.4	98.8
YES	6	1.2	1.2	100
Total	515	100	100	

Next question goes to the banker of the enterprise. Table 4.11 displays the data regarding banker of enterprise. As per the data, name of total 14 bankers have received. Out of them 6 banks are nationalized banks, 7 are private banks and remaining are cooperative banks. For cooperative banks, specified name are not stated. Out of total six nationalized bank, the bank which is trustworthy more by the enterprises is State Bank of India. Total 105 (20.4%) of enterprises have selected SBI as their main banker, followed by Punjab National Bank 70 (13.6%), Bank of Baroda 46 (8.9%), Oriental Bank of Commerce and Bank of India each with 27 (5.2%) and the nationalized bank with least accounts is Dena Bank with 7 (1.4%) accounts.

On the other hand, in private sector banks, HDFC Bank is having maximum accounts 58 (11.3%), followed by AXIS Bank 41 (8%), ICICI Bank 37 (7.2%), Kotak Mahindra Bank 23 (4.5%), Federal Bank 16 (3.1%), Karur Vyashy Bank 10 (1.9%) and the bank with least accounts is Yes Bank 6 (1.2%).

If the same data is organized overall, as shows in figure 4.11 above, the State Bank of India is on the top followed by Punjab National Bank. Private bank starts with third place which is HDFC Bank. Although cooperative banks holding fifth position with 42 (8.8%) accounts. The bank with the least accounts is private bank Yes Bank, whereas the second last bank is Dena Bank which is nationalized bank.

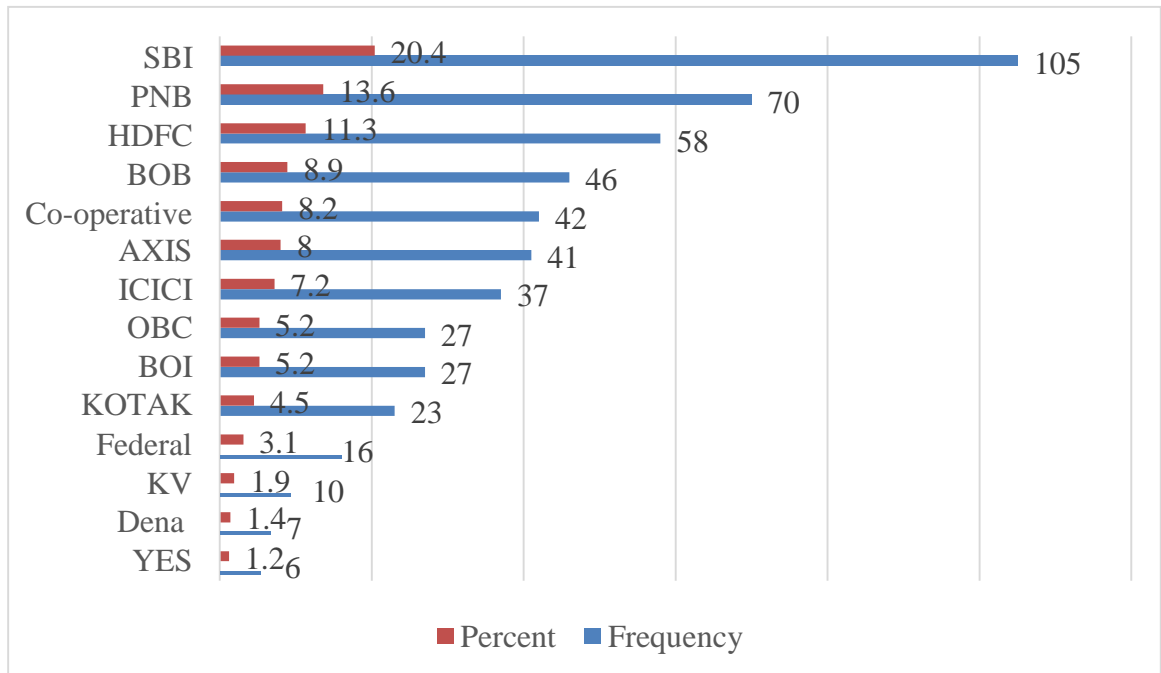


Figure 4.11 Bankers of the Enterprises

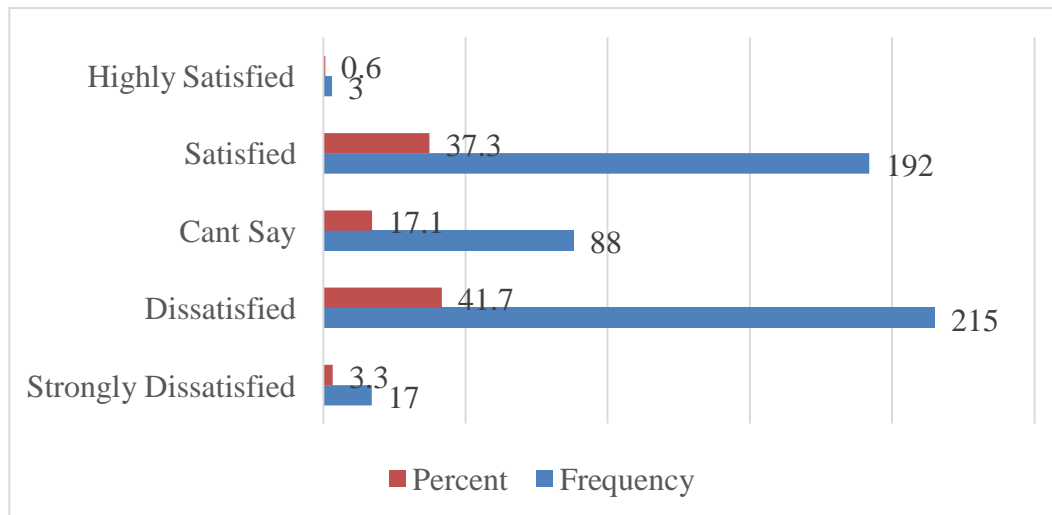
Table 4.12 below displays the satisfaction of enterprises with services provided by the banker.

Table 4.12 Satisfaction Level with Services Provided by the Banker

Satisfaction Level	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Dissatisfied	17	3.3	3.3	3.3
Dissatisfied	215	41.7	41.7	45
Can't Say	88	17.1	17.1	62.1
Satisfied	192	37.3	37.3	99.4
Highly Satisfied	3	0.6	0.6	100
Total	515	100	100	

As per the data, majority of the respondents 215 (41.7%) are dissatisfied with their bankers and 192 (37.3%). Total 88 (17.1%) respondents are not able to say their standing. However 17 (3.3%) respondents are strongly dissatisfied with their bankers. The respondents who are highly satisfied are only 3 (0.6%). Following figure 4.12 shows the distribution of respondents on the basis of their level of satisfaction with their bankers.

Figure 4.12 Level of Satisfaction with Service Quality of Banker



Next question goes to level of satisfaction with behaviour of the bank employees.

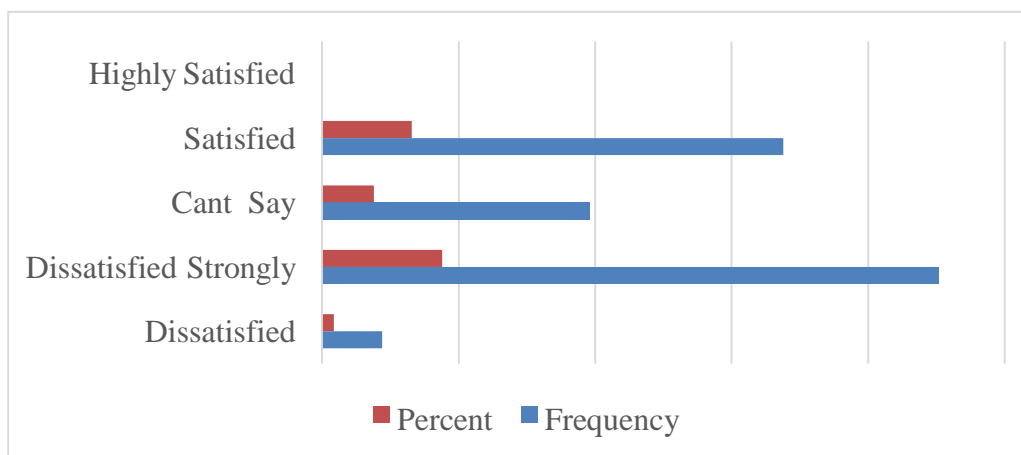
Following table 4.13 shows the data related to that.

Table 4.13 Level of Satisfaction belongs to Behaviour of the Bank Employees

Level of Satisfaction	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Dissatisfied	22	4.3	4.3	4.3
Dissatisfied	226	43.9	43.9	48.2
Can't Say	98	19	19	67.2
Satisfied	169	32.8	32.8	100
Highly Satisfied	0	0	0	100
Total	515	100	100	

As per the informations available in the above table and the figure 4.13 below, it is unblemished that the maximum number of respondents 226 (43.9%) are dissatisfied with the behaviour of the employees of their bank. However 169 (32.8%) respondents are satisfied. 98 (19%) respondents are not able to say about their decision. 22 (4.3%) of respondents are strongly dissatisfied with the behaviour of bank employees. And there are no respondents are highly satisfied with the behaviour of the bank employees.

Figure 4.13 Level of Satisfaction with Behaviour of Bank Employees



4.2.4 Information about Investment and Borrowings:

This grouping of questionnaire includes the seven questions. The questions fits to type of enterprise, whether micro, small or medium enterprise, percentage of borrowings in total investment, percentage of bank loan in total borrowings, information regarding different sources of finance, bank loan as a main source of finance or not, other available sources other than bank loan to get finance and main reasons to get the borrowings. Table 4.14 below shows the data regarding the category of enterprise.

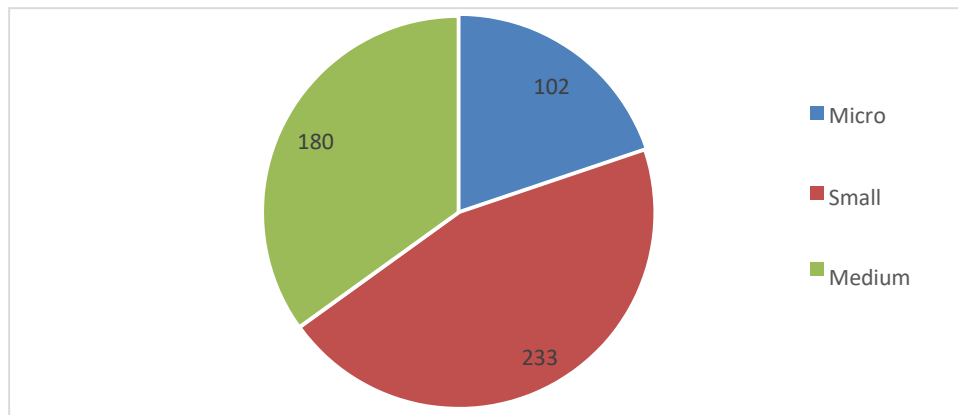
Table 4.14 Category of Enterprise

Categories	Frequency	Percent	Valid Percent	Cumulative Percent
Micro	102	19.8	19.8	19.8
Small	233	45.2	45.2	65
Medium	180	35	35	100

Total	515	100	100	
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As per the informations available in table above and in figure 4.14, out of 515 enterprises, maximum number of enterprises fits to small enterprises 233 (45.2%). Second largest grouping is medium enterprises which are 180 (35%) and the group with the least enterprises is micro enterprises which are 102 (19.8%). In India, this classification is based on the investment in plant and machineries. However in certain countries it is based on number of employees. Figure 4.14 below shows the distribution of enterprises on the basis of their groupings.

Figure 4.14 Distribution of Enterprises on the basis of their Groupings



Next question goes to proportion of borrowings in total investment in the business.

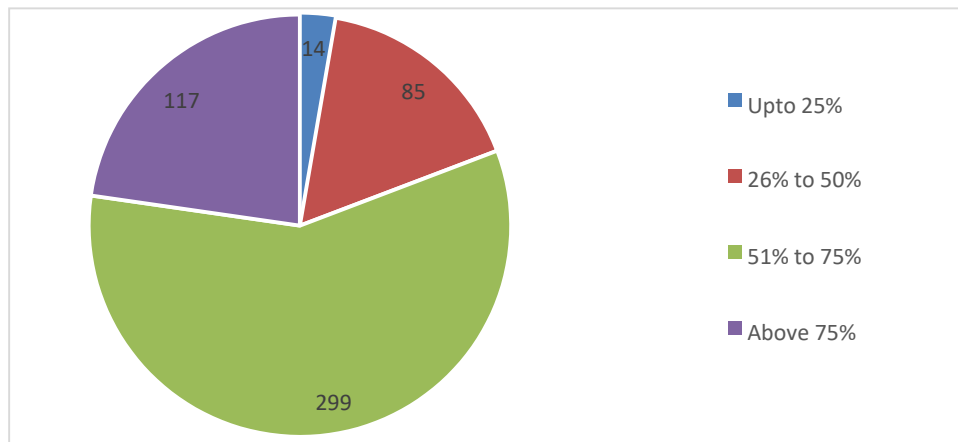
Table 4.15 below shows the data related to this information.

Table 4.15 Proportion of Borrowings in total Investment in Business

Proportions	Frequency	Percent	Valid Percent	Cumulative Percent
Up to 25%	14	2.7	2.7	2.7
26% to 50%	85	16.5	16.5	19.2
51% to 75%	299	58.1	58.1	77.3
Above 75%	117	22.7	22.7	100
Total	515	100	100	

As per the table above and figure 4.15 below, highest number of enterprises 299 (58.1%) having the borrowings in the proportion of 51% to 75% of total investment, while 117 (22.7%) enterprises having borrowings more than 75% of total investment in their business. 85 (16.5%) of enterprises having borrowing level of 26% to 50% of total investment while 14 (2.7%) enterprises having least proportion of investment which is less than 25%. Figure 4.15 below displays the distribution of enterprises on the basis of proportion of borrowings in total investment in business.

Figure 4.15 Distribution of Enterprises on the basis of Proportion of Borrowings



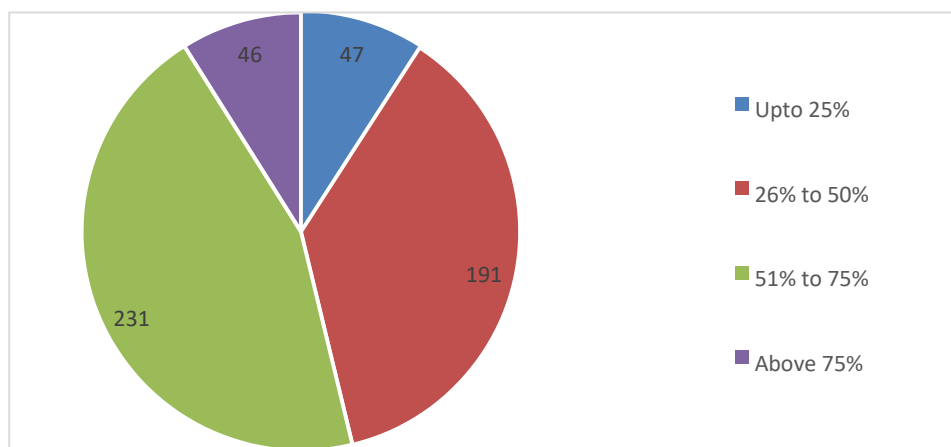
Next question in the same grouping goes to the percentage of bank loan in total borrowings. Following table 4.16 shows the data regarding percentage of bank loan in total borrowing obtained by the enterprises.

Table 4.16 Proportion of Bank Loan in total Borrowings obtained by the Enterprises

Proportion	Frequency	Percent	Valid Percent	Cumulative Percent
Upto 25%	47	9.1	9.1	9.1
26% to 50%	191	37.1	37.1	46.2
51% to 75%	231	44.9	44.9	91.1
Above 75%	46	8.9	8.9	100
Total	515	100	100	

Table above table and figure 4.16 below present the proportion of bank loan in total borrowings obtained by the enterprises. As per the data, mainstream of the enterprises 231 (44.9%) have portion of bank loan up to 51% to 75% in their total borrowings. Whereas 191 (37.1%) enterprises have proportion of bank loan up to 26% to 50% of their total borrowings. The enterprises having bank loan in less proportion – up to 25% are 47 (9.1%) and continuing 46 (8.9%) of enterprises have high proportion of bank loan above 75% in their total borrowings. Following figure 4.16 shows the distribution of enterprises in the proportion of bank loan in their total borrowings.

Figure 4.16 Proportion of Bank Loan in Total Borrowings



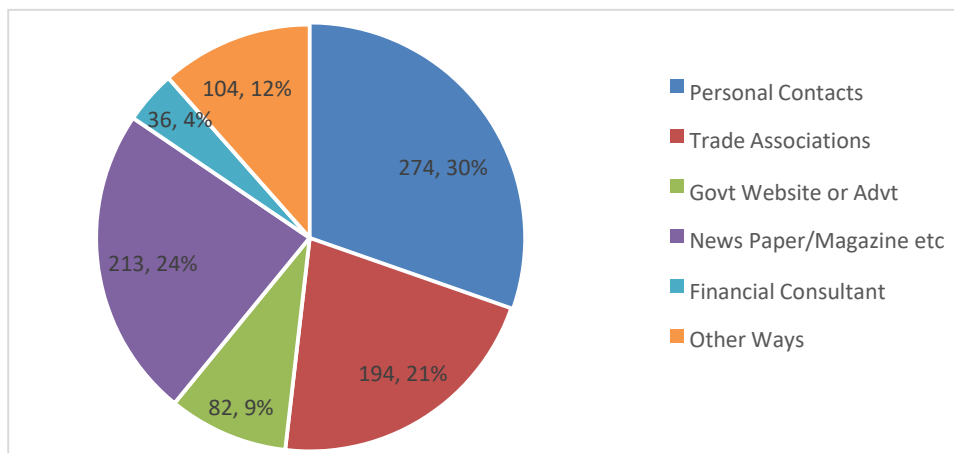
Next question of this grouping goes to sources of collecting information about different ways of finance. Table 4.17 shows below the informations regarding this.

Table 4.17 Various Sources of Information related to Finance

Various Sources	Responses		Percent of Cases
	N	Percent	
Personal Contacts	274	30.30%	53.20%
Trade Associations	194	21.50%	37.70%
Government Website or Advertisement	82	9.10%	15.90%
News Paper/Magazine etc.	213	23.60%	41.40%
Financial Consultant	36	4.00%	7.00%
Other Ways	104	11.50%	20.20%
Total	903	100.00%	175.30%

As per the informations available in table 4.17 and figure 4.17, most of the respondents - 274 obtains information for financial sources from their personal contacts. While 213 respondents obtains information from newspapers/magazine etc. 204 respondents obtain information from other ways and 82 of them obtains from government websites or advertisements. Only 36 respondents take the assistance of financial consultants concerning this. Following figure 4.17 shows the distribution of different sources of information for procurement of finance.

Figure 4.17 Sources of Information of obtaining Finance



Another question in the similar grouping goes to bank loan as a main source of finance. Table 4.18 below shows the data regarding this question.

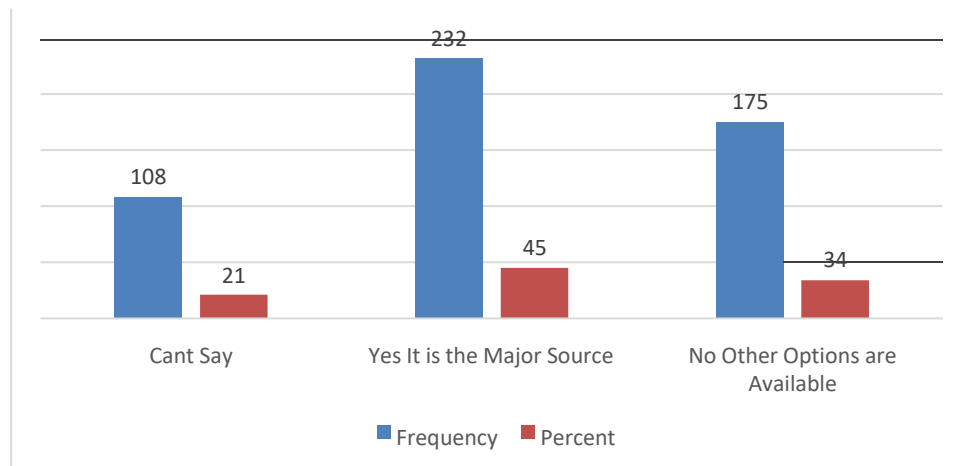
Table 4.18 Bank Loan as a Major Source of Finance

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Can't Say	108	21	21	21
Yes, It is the Major Source	232	45	45	66
No, Other Options are Available	175	34	34	100
Total	515	100	100	

As per the informations available in table 4.18 and figure 4.18 given below, mainstream of the respondents 232 (45%) considers bank loan as a major source of finance. While 175

(34%) respondents do not consider the bank loan as a main sources of finance, according to them, other sources are also accessible. On the other hand, 108 (21%) of respondents are not able to give any view about this question. Figure 4.18 below displays the distribution of respondents for this question.

Figure 4.18 Bank Loan as a Major Source of Finance



Next question is based on the different sources of getting finance for entrepreneurs, other than bank loan. Following table 4.19 displays the details regarding this question.

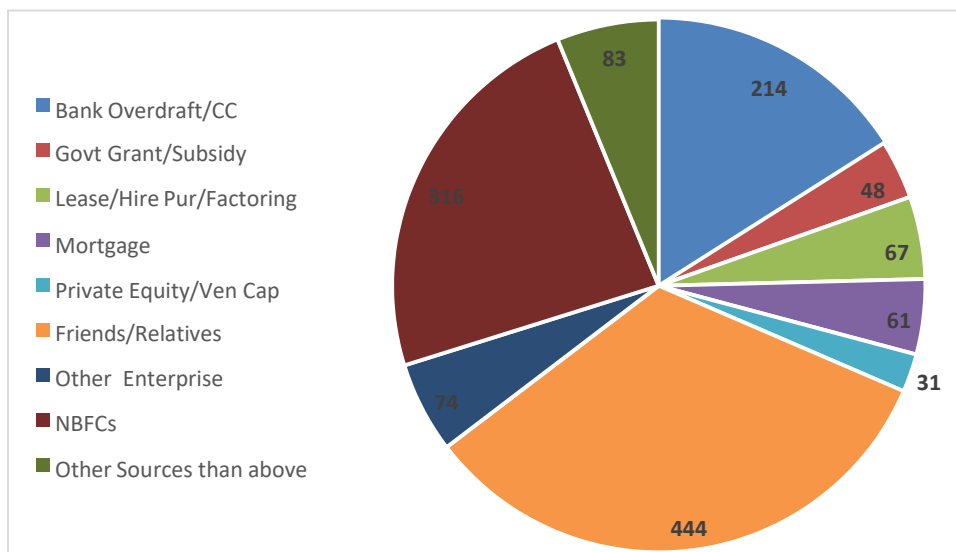
Table 4.19 Sources of Finance (other than bank loan)

Different Sources	Responses		Percent of Cases
	N	Percent	
Bank Overdraft/Cash Credit	214	16.00%	41.60%
Government Grant/Subsidy	48	3.60%	9.30%
Lease/Hire Purchase/Factoring	67	5.00%	13.00%
Mortgage	61	4.60%	11.80%
Private Equity/Venture Capital	31	2.30%	6.00%
Friends/Relatives	444	33.20%	86.20%
Other Enterprise	74	5.50%	14.40%
Non-Banking Finance Companies [NBFCs]	316	23.60%	61.40%
Other Sources than above	83	6.20%	16.10%
Total	1338	100.00%	259.80%

As per the data available above, all-out respondents 444 (33.20%) have preferred the source of finance is from friends or relatives.

Another most preferred source of finance is finance from non-banking finance companies which is adopted by 316 (23.60%) of respondents. Bank Overdraft or Cash Credit is also one of the attractive sources, as it is adopted by the 214 (16%) respondents. Other less favored sources includes finance from other sources than stated here which are 83 (6.20%), finance from other enterprises 74 (5.50%), modern sources like lease/hire purchase/factoring are adopted by 67 (5%), mortgage by 61 (4.60%), government grants/subsidy is implemented by 48 (3.60%) and the least favored source is private equity/venture capital which is implemented by only 31 respondents (2.30%). Following figure 4.19 displays the details regarding distribution of respondents on the basis of different sources of finance.

Figure 4.19 Distribution of Respondents on the basis of Different Sources of Finance



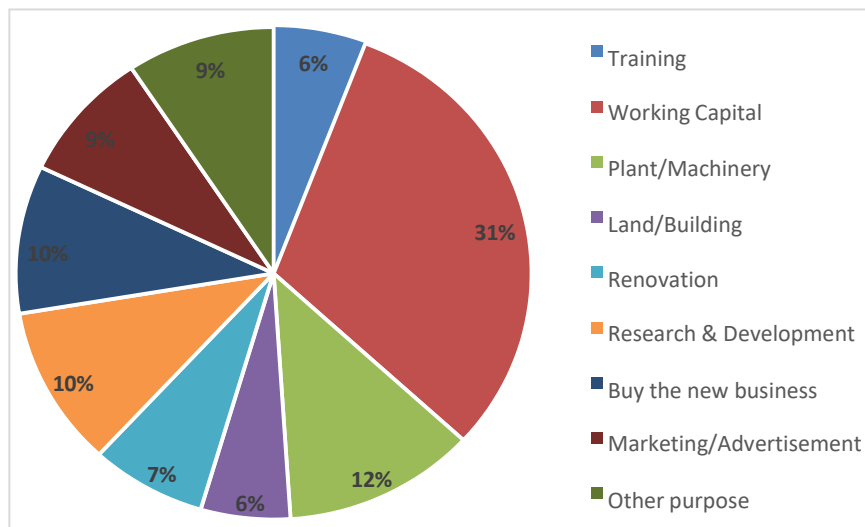
Last question of this category belongs to reasons for obtaining the finance. Following table 4.20 displays the details regarding this question. As per the informations, majority of the respondents 354 (31.10%) necessitates the finance for working capital. Second highest purpose of finance is for purchase of plant and machinery 138 (12.10%), followed by research and development 120 (10.50%), to acquire the new business 111 (9.70%), for other purpose 106 (9.30%), for marketing and advertisement 98 (8.60%), for renovation 83 (7.30%), for training and development of employees 66 (5.80%) and to procurement of fixed assets like land and building are least 64 (5.60%).

Table 4.20 Purpose of raising Finance

Various Sources	Responses		Percent of Cases
	N	Percent	
Training & Development	66	5.80%	12.80%
Working Capital	354	31.10%	68.70%
Plant/Machinery	138	12.10%	26.80%
Land/Building	64	5.60%	12.40%
Renovation	83	7.30%	16.10%
Research & Development	120	10.50%	23.30%
Buy the new business	111	9.70%	21.60%
Marketing/Advertisement	98	8.60%	19.00%
Other purpose	106	9.30%	20.60%
Total	1140	100.00%	221.40%

Figure 4.20 below displays the distribution of respondents on the basis of their different purposes for procurement of finance.

Figure 4.20 Distributions of Respondents on the Basis of Purpose of Obtaining Finance



4.2.5 Past Experience of Bank Loan

Fifth grouping of questionnaire asks the questions concerning past experience of respondents about their bank loan procedure. This part frees the basis phenomenon about their experience

towards bank loan. In this grouping, there are four questions which includes the proportion of bank loan received by them with compare to their demand, duration for loan processing, opinion of respondents regarding the rate of interest charged by the bankers and how operational the bank loan is in their business.

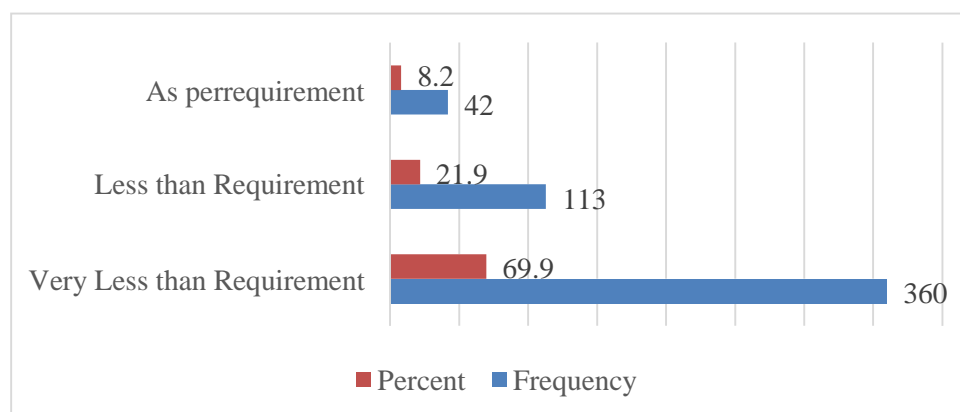
Following table 4.21 shows the data regarding the proportion of bank loan received.

Table 4.21 Bank Loan Received by the Respondents

Loan Amount	Frequency	Percent	Valid Percent	Cumulative Percent
Very Less than Requirement	360	69.9	69.9	69.9
Less than Requirement	113	21.9	21.9	91.8
As per requirement	42	8.2	8.2	100
Total	515	100	100	

As per the details given in above table, majority of the respondents 360 (69.9%) have received very less amount of bank loan than necessity. On the other hand, those who have sense that the amount is less than prerequisite are 113 (21.9%) and the respondents who believe that the amount of loan is as per necessities are only 42 (8.2%). Following figure 4.21 shows the distribution of respondents on the basis of loan received by the respondents.

Figure 4.21 Distribution of Respondents on the basis of Loan Received



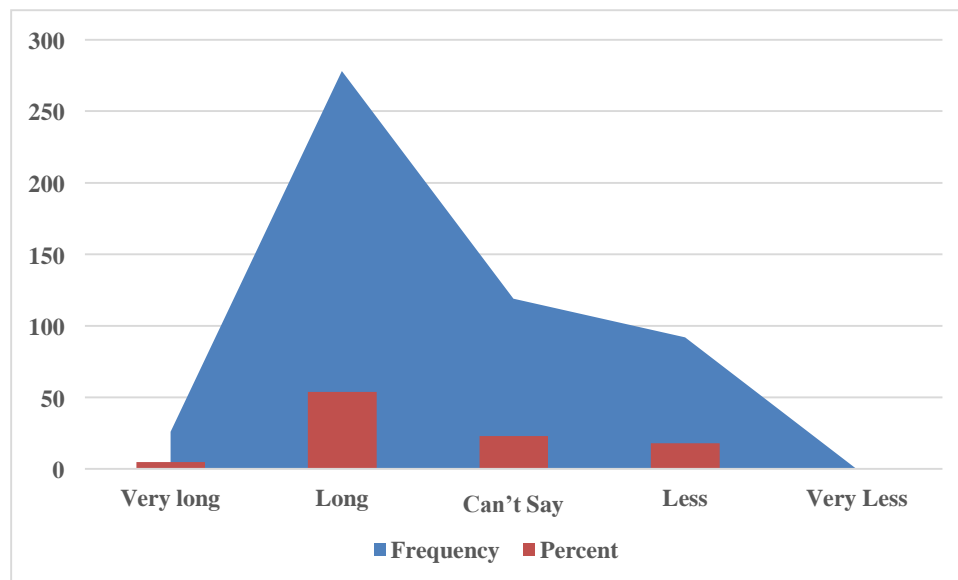
Next question in this grouping goes to opinion of respondents about the length of loan procedure. Following table 4.22 provides the details concerning this question.

Table 4.22 Opinion about Loan Process Duration

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Very long	26	5	5	5
Long	278	54	54	59
Can't Say	119	23.1	23.1	82.1
Less	92	17.9	17.9	100
Very Less	0	0	0	100
Total	515	100	100	

As per the informations available in table 4.22 and figure 4.22 below, the respondents who believe that the procedure of obtaining the bank loan is long are 278 (54%). There are 119 (23.1%) respondents, who are not able to give their view. According to 92 (17.9%) respondents time is less. On the other hand, 26 (5%) respondents believe that the time taken by the bank is very long. Figure 4.22 below displays the details regarding this question.

Figure 4.22 Opinion regarding Time Taken by Bank



Next question in this grouping goes to opinion of respondents about rate of interest of bank loan.

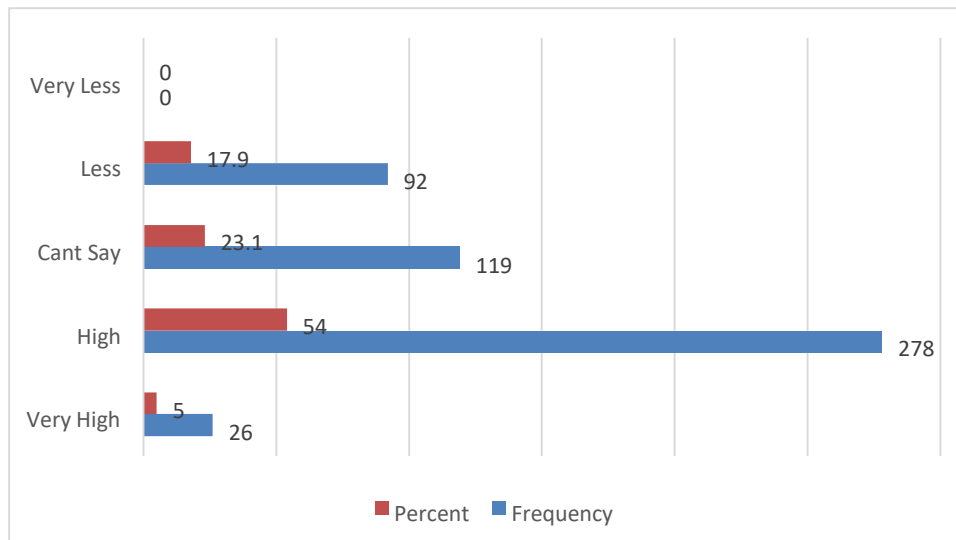
Following table 4.23 shows the data regarding this question.

Table 4.23 Opinion about Rate of Interest

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Very High	26	5	5	5
High	278	54	54	59
Can't Say	119	23.1	23.1	82.1
Less	92	17.9	17.9	100
Very Less	0	0	0	100
Total	515	100	100	

As per the informations available in table 4.23 and figure 4.23 below, the respondents who consider that the rate of interest of bank loan is high are 278 (54%). There are 119 (23.1%) respondents, who are not able to give their view. According to 92 (17.9%) respondents, rate of interest is less. On the other hand, 26 (5%) respondents consider that the rate of interest charged by the bank is very high. Figure 4.23 below shows the details regarding this question.

Figure 4.23 Opinion regarding Bank Interest



4.2.6 Problems in Obtaining Bank Loan and Reasons for that:

This grouping of the questionnaire is most significant as the related closely with research problem. In this grouping, questions regarding problems faced by entrepreneurs in receiving bank loan and reasons for that have been asked. This grouping includes total five questions,

out of that first two questions are particular and other three questions are based on likert scale.

Table 4.24 Level of Problems faced by Respondents during Process of Bank Loan

	Frequency	Percent	Valid Percent	Cumulative Percent
Fail to get bank loan	23	4.5	4.5	4.5
Faced many problems	286	55.5	55.5	60
Can't say	106	20.6	20.6	80.6
Faced only few problems	100	19.4	19.4	100
Total	515	100	100	

Table 4.24 above, displays the details regarding first question in this grouping. The question is based on problems faced during procedure of bank loan. Figure 4.24 below displays the distribution of respondents on the basis of problems faced by them.

Figure 4.24 Distribution of Respondents on the basis of problems faced by them

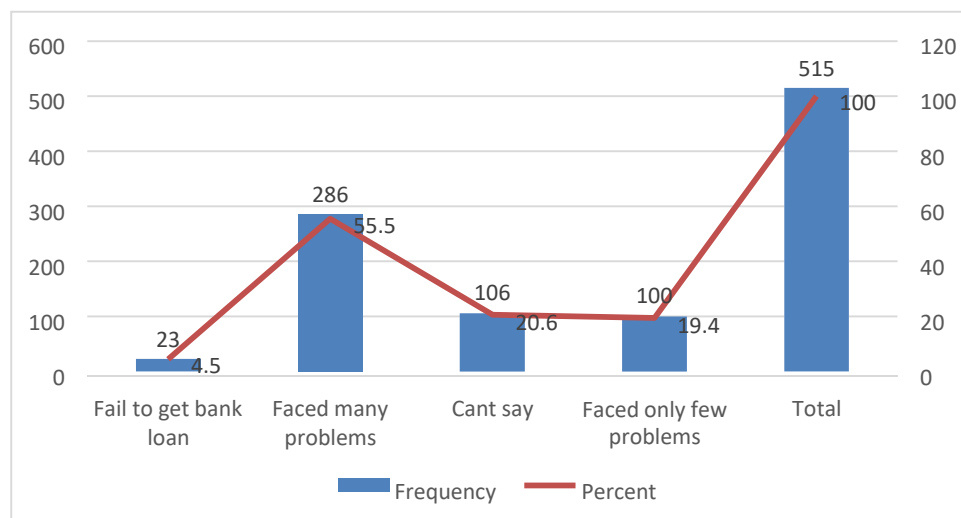


Table 4.24 above and figure 4.24 below displays the level of problems faced by the respondents during the procedure of bank loan. As per the data, mainstream of the respondents 286 (55.5%) agree that they have faced many difficulties during the process of bank loan. While 106 (20.6%) respondents are not able to say their view. Out of total 515 respondents, 23 (4.5%) unsuccessful to get the bank loan, due to main problems. On the other hand, 100 (19.4%) respondents faced very few difficulties during the process of bank loan.

Second question in this grouping goes to difficulties faced by respondents at which phase of application. Table 4.25 above presents the data regarding this question.

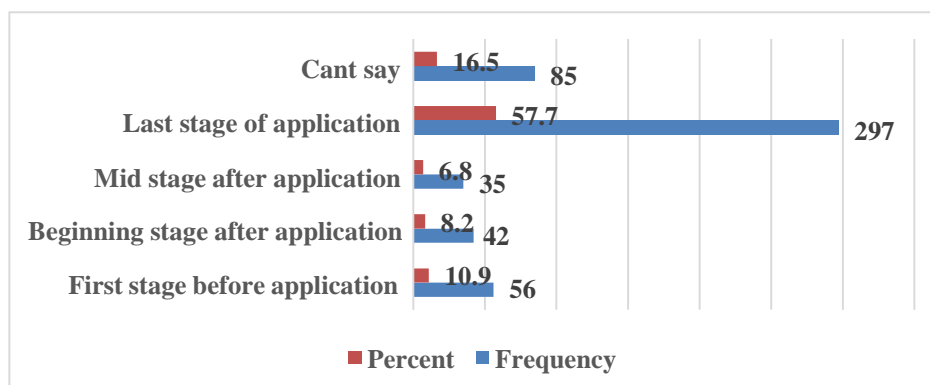
Table 4.25 Problems faced at which phase of loan process

Various Phases	Frequency	Percent	Valid Percent	Cumulative Percent
First stage before application	56	10.9	10.9	10.9
Beginning stage after application	42	8.2	8.2	19
Mid stage after application	35	6.8	6.8	25.8
Last stage of application	297	57.7	57.7	83.5
Can't say	85	16.5	16.5	100
Total	515	100	100	

As per the informations available, most of the respondents 297 (57.5%) have faced problems during last stage of application. 85 (16.5%) of respondents are not able to say their opinion. On the other hand, respondents who have confronted difficulties at the first stage before application are 56 (10.9%). Followed by the commencement stage after application where respondents are 42 (8.2%). This is the phase where respondents have faced least problems is mid stage after application where respondents are 35 (6.8%).

Figure 4.25 below shows the distribution of respondents on the basis of problems faced by them at different phases of bank loan process.

Figure 4.25 Distribution of Respondents on the bases of problems faced by them at various phase of bank loan process



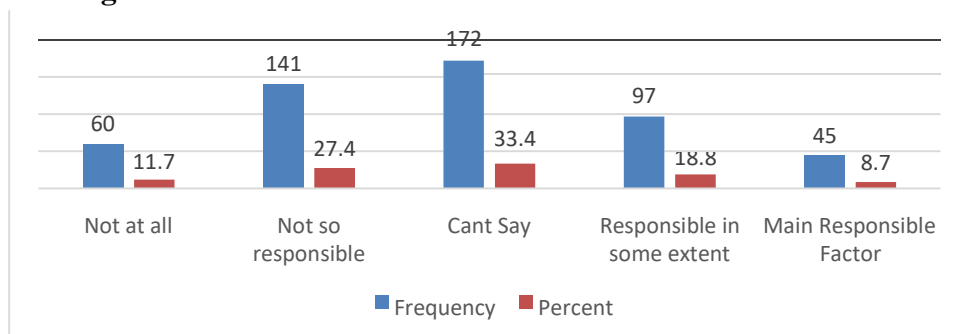
Next question in this category belongs to various responsible factors for problems in getting bank loan by the respondents. Among the various reasons, the first reasons is past failure or past poor performance. Following figure 4.26 displays the details regarding this question.

Table 4.26 Past Failure or Poor Past Performance as a Reason

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	60	11.7	11.7	11.7
Not so responsible	141	27.4	27.4	39
Can't Say	172	33.4	33.4	72.4
Responsible in some extent	97	18.8	18.8	91.3
Main Responsible Factor	45	8.7	8.7	100
Total	515	100	100	

Based on the above table 4.26, figure 4.26 below shows the distribution of the respondents based on the above reason.

Figure 4.26 Past Failure or Poor Past Performance as a Reason



As per the data above, maximum number of respondents 172 (33.40%) are not able to say about the past failure or poor past performance as a responsible reason. While according to 141 (27.40%) respondents, this reason for not receiving bank loan is not so responsible. 97 (18.8%) of the respondents consider this reason as responsible in some extent. According to 60 (11.70%) respondents, this reason is not at all accountable for failure in getting bank loan. While, as per the opinion of 45 (8.70%) respondents, this is the key responsible factor.

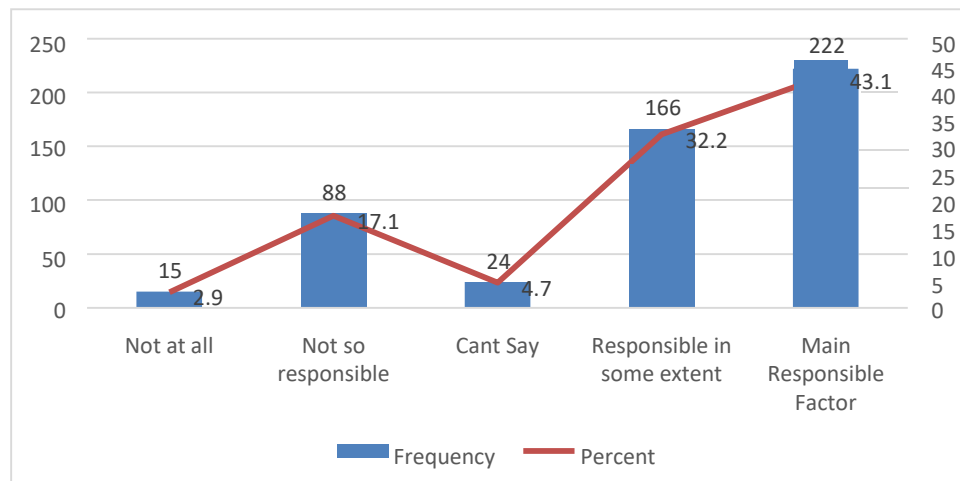
The second reason was lack of proper guidance regarding the procedures. Following table 4.27 displays the details regarding the factor.

Table 4.27 Lack of Proper Guidance regarding the Procedure

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	15	2.9	2.9	2.9
Not so responsible	88	17.1	17.1	20
Can't Say	24	4.7	4.7	24.7
Responsible in some extent	166	32.2	32.2	56.9
Main Responsible Factor	222	43.1	43.1	100
Total	515	100	100	

Based on the table 4.27, the figure 4.27 below displays the distribution of respondents on the basis of lack of proper guidance regarding the procedure.

Figure 4.27 Distribution of Respondents on the basis of Lack of Proper Guidance regarding the Procedure



As per the data above, the mainstream of the respondents 222 (43.10%) consider lack of guidance regarding bank loan procedure as a main responsible factor. 166 (32.20%) of respondents believe this factor responsible in some degree. According to 88 (17.10%)

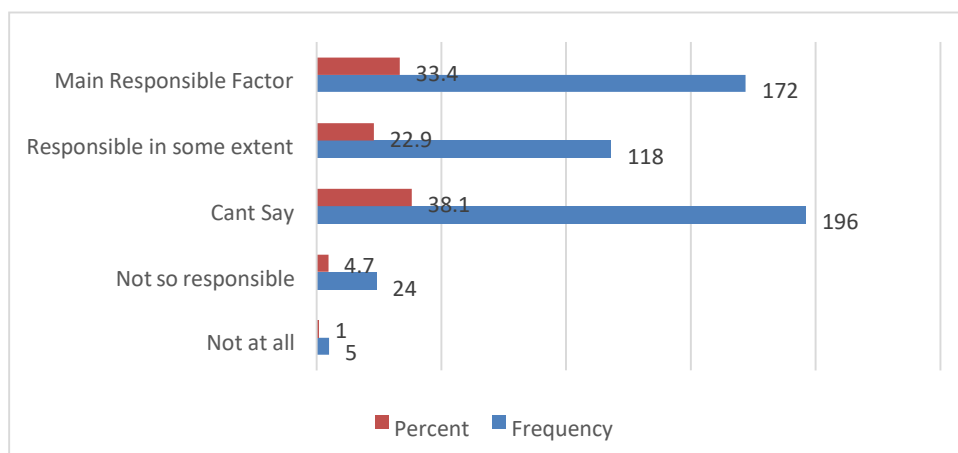
respondents, this factor is not so accountable. There are 24 (4.70%) respondents who are not able to say about the question. As per the 15 (2.9%) respondents this reason is not at all responsible towards obtainability of bank loan.

Table 4.28 Liquidity Problem as a Reason

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	5	1	1	1
Not so responsible	24	4.7	4.7	5.6
Can't Say	196	38.1	38.1	43.7
Responsible in some extent	118	22.9	22.9	66.6
Main Responsible Factor	172	33.4	33.4	100
Total	515	100	100	

Table 4.28 above displays the liquidity problem as a reason for non-availability of bank loan. As per the data composed, mainstream of the respondents 196 (38.1%) are not able to say about this reason as responsible or not. While, 172 (33.4%) respondents consider this reason as a main responsible factor. 118 (22.9%) respondents consider this reason responsible in some extent. There are 24 (4.7%) respondents who consider that this reason is not so responsible. And according to only 5 (1%) respondents, this reason was not at all responsible. Figure 4.28 below shows the distribution of respondents on the basis of liquidity problem.

Figure 4.28 Distribution of Respondents on the basis of Liquidity Problem



Next reason for no receipt of bank loan is inadequate documents and information.

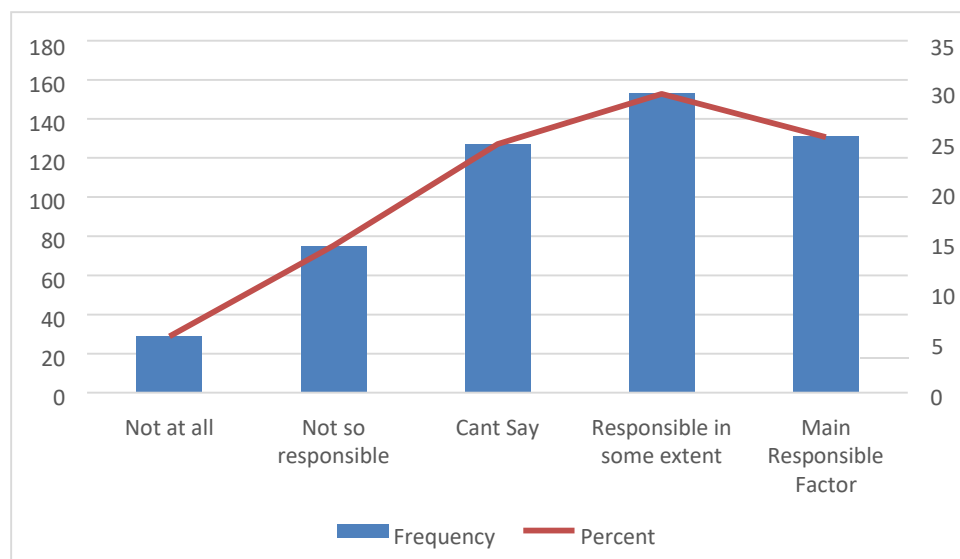
Table 4.29 below shows the data regarding this question.

Table 4.29 Distribution of Respondents on the basis of Insufficient Documents and Information as a Reason

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	29	5.6	5.6	5.6
Not so responsible	75	14.6	14.6	20.2
Can't Say	127	24.7	24.7	44.9
Responsible in some extent	153	29.7	29.7	74.6
Main Responsible Factor	131	25.4	25.4	100
Total	515	100	100	

As per the informations available, mainstream of the respondents 153 (29.7%) inadequate documents and information is accountable factor in some extent. Respondents who consider this factor as chief accountable factor are 131 (25.4%). There are 127 (24.70%) respondents who are not able to say anything about this question. On the other hand, 75 (14.60%) respondents consider that this reason is not so responsible for them for getting the bank loan. And as per 29 (5.60%) respondents, inadequate documents are not responsible factor at all. Based on the above data, figure 4.29 below shows the distribution of respondents on the basis of inadequate documents and information as a reason.

Figure 4.29 Distribution of Respondents on the basis of Insufficient Documents and information as a Reason



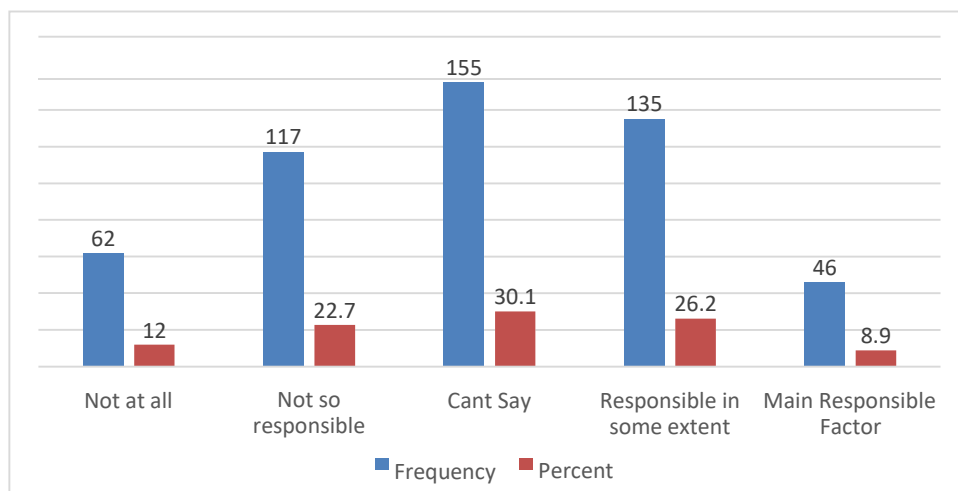
Next factor of failure in availing the bank loan asked is lack of financial reports. Table 4.30 below shows the distribution of respondents on the basis of lack of financial statements. As per the data available in the table given below, majority of the respondents 155 (30.1%) have no any opinion about this factor. Whereas, according to 135 (26.2%) respondents, lack of financial reports is responsible factor in some extent. As per 117 (22.70%) respondents, this factor is not so responsible. Whereas 62 (12%) respondents believe this factor not responsible at all. According to remaining 46 (8.9%) respondents, this factor is the main responsible factor for not availing the bank loan.

Table 4.30 Lack of Financial Reports as a Reason

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	62	12	12	12
Not so responsible	117	22.7	22.7	34.8
Can't Say	155	30.1	30.1	64.9
Responsible in some extent	135	26.2	26.2	91.1
Main Responsible Factor	46	8.9	8.9	100
Total	515	100	100	

Following figure 4.30 shows the distribution of respondents on the basis of lack of financial reports.

Figure 4.30 Distribution of Respondents on the basis of Lack of Financial Reports



Next factor affecting non availability of bank loan is lack of mortgage or collaterals. Following table 4.31 presents the details regarding the same.

Table 4.31 Lack of Mortgage or Collaterals as a Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	38	7.4	7.4	7.4
Not so responsible	140	27.2	27.2	34.6
Can't Say	143	27.8	27.8	62.3
Responsible in some extent	106	20.6	20.6	82.9
Main Responsible Factor	88	17.1	17.1	100
Total	515	100	100	

As per the informations available in table 4.31 above, mainstream of the respondents 143 (27.8%) are not able to say anything about this factor. 140 (27.2%) of respondents consider that lack of mortgage or securities is not so responsible factor for rejecting the bank loan. While, 106 (20.6%) of respondents consider that this factor is responsible to some point. According to 88 (17.1%) respondents, this is the chief accountable factor and as per the view of 38 (7.4%) respondents, this factor is not responsible at all. Figure 4.31 below shows the distribution of respondents on the base of absence of mortgage or security as a element.

Figure 4.31 Distribution of Respondents on the basis of Lack of Mortgage or Collaterals as a responsible Factor

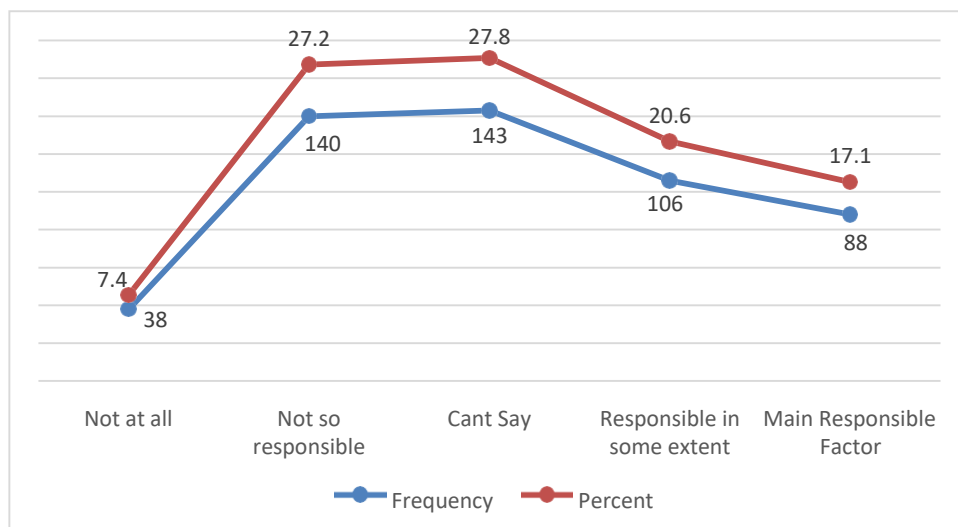
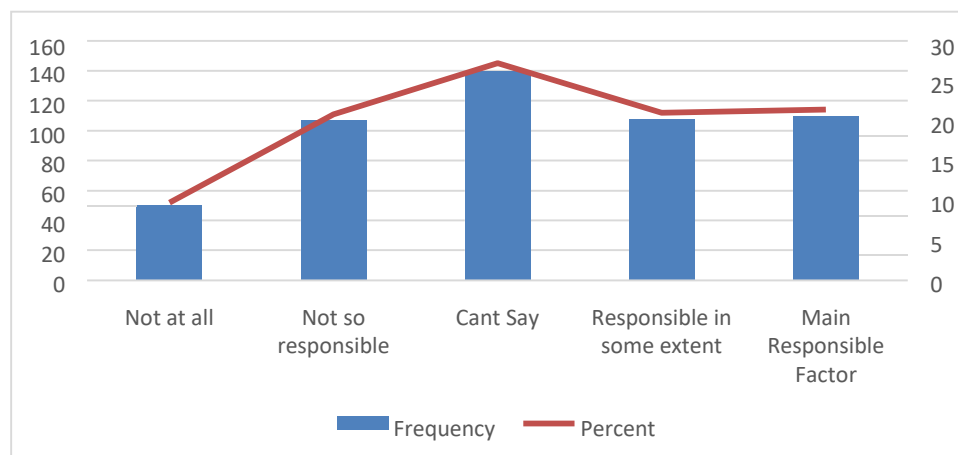


Table 4.32 High Level of Debt/Current Loans

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	50	9.7	9.7	9.7
Not so responsible	107	20.8	20.8	30.5
Can't Say	140	27.2	27.2	57.7
Responsible in some extent	108	21	21	78.6
Main Responsible Factor	110	21.4	21.4	100
Total	515	100	100	

Next factor responsible for denying the bank loan is lower debt equity ratio, or high level of current debts. Table 4.32 shows the details of respondents about the same. Figure 4.32 below shows the distribution of respondents on the basis of high level of debt or current loan.

Figure 4.32 Distribution of Respondents on the basis of High Level of Debt/Current Loan as a responsible factor.



As per the given data in table 4.32 above, majority of the respondents 140 (27.2%) cannot say anything about this factor as a responsible factor for non-availability of bank loan. Whereas, according to 110 (21.4%) respondents, this factor is the main responsible factor. As per 108 (21%) respondents, this factor is responsible in some extent. According to 107 (20.8%) respondents, this factor is not so responsible, and as per 50 (9.7%) respondents, this factor is not responsible at all for denying the bank loan.

Next question belongs to processing charges and cost of bank loan. The respondents were asked to give their opinion about processing charges and cost of bank loan. Following table

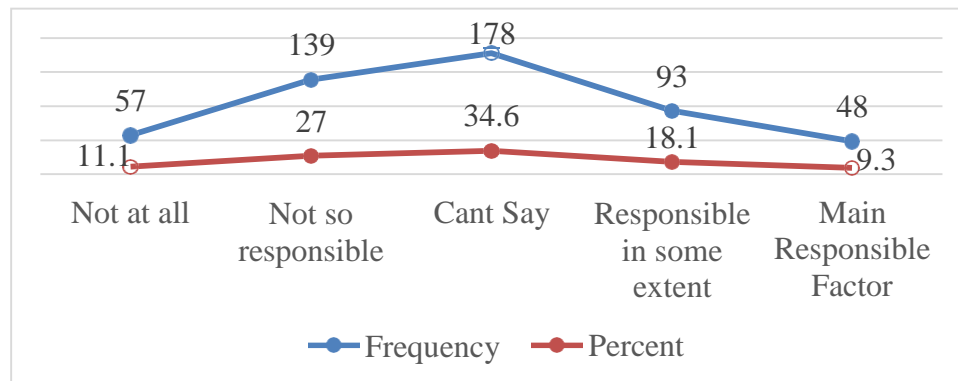
4.33 shows the details about view of respondents for processing charges and cost of bank loan.

Table 4.33 Opinion of Respondents about processing charges and cost of bank loan

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	57	11.1	11.1	11.1
Not so responsible	139	27	27	38.1
Can't Say	178	34.6	34.6	72.6
Responsible in some extent	93	18.1	18.1	90.7
Main Responsible Factor	48	9.3	9.3	100
Total	515	100	100	

Following figure 4.33 displays the distribution of respondents on the basis of processing charges and cost of bank loan.

Figure 4.33 Distribution of Respondents on the basis of Processing Charges and Cost of Bank Loan as a factor



As per the informations available in table 4.32 above, majority of the respondents 178 (34.6%) are not able to say anything about this point. While, according to 139 (27%) respondents, this factor is not so responsible for them. 93 (18.1%) respondents consider that this factor is accountable to some extent. 57 (11.1%) respondents consider that this dynamic is not so accountable at all, and 48 (9.3%) respondents consider that this is the chief responsible element for non-availability of bank loan.

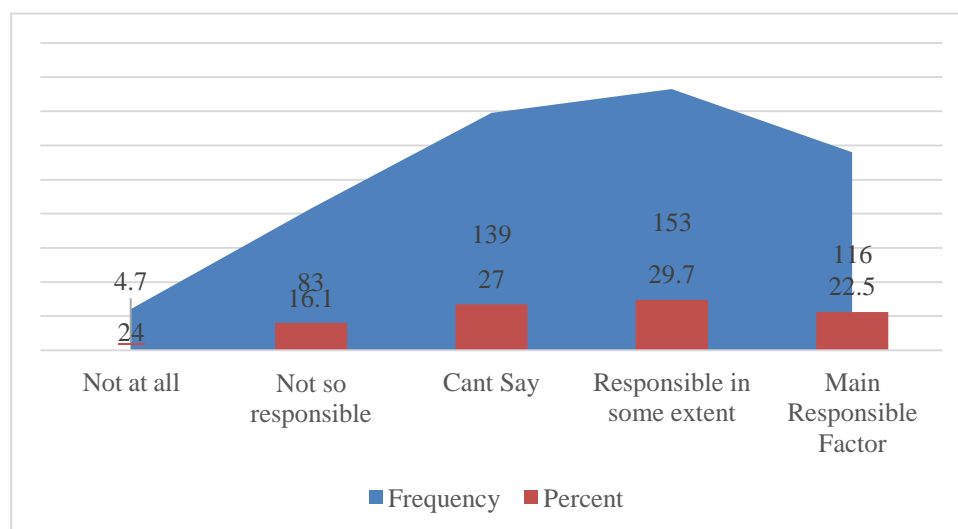
Next factor enquired to the respondents is long time for bank loan procedure. Following table 4.34 displays the data regarding the same.

Table 4.34 Long Time for Bank Loan Process as a factor

	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	24	4.7	4.7	4.7
Not so responsible	83	16.1	16.1	20.8
Can't Say	139	27	27	47.8
Responsible in some extent	153	29.7	29.7	77.5
Main Responsible Factor	116	22.5	22.5	100
Total	515	100	100	

As per the informations given in the table above, majority of the respondents 153 (29.7%) believe that long time for bank loan process is responsible factor in some extent. While, 139 (27%) respondents are not able to say about this factor. According to 116 (22.5%) respondents, this factor is the main responsible factor for rejecting the for the bank loan. 83 (16.1%) respondents consider that this factor is not so responsible and 24 (4.7%) respondents consider that this factor is not responsible at all. Following figure 4.34 shows the distribution of respondents on the basis of long time for bank loan process as a responsible factor.

Figure 4.34 Distribution of Respondents on the basis of Long Time for Bank Loan process as a responsible factor



Next responsible factor asked to respondents is variations in plan or situation.

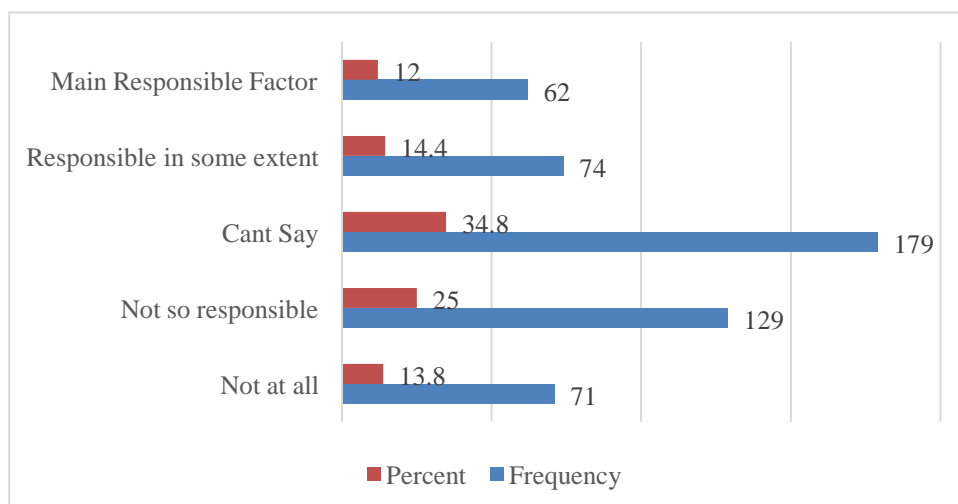
Following figure 4.35 shows the data regarding the same given by the respondents.

Table 4.35 Changes in Plan or Situation as a responsible factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	71	13.8	13.8	13.8
Not so responsible	129	25	25	38.8
Can't Say	179	34.8	34.8	73.6
Responsible in some extent	74	14.4	14.4	88
Main Responsible Factor	62	12	12	100
Total	515	100	100	

As per the informations provided in the table 4.35 above, majority of the respondents 179 (34.8%) are not able to say anything about this factor. While 129 (25%) respondents consider this factor not so responsible for denying of bank loan. According to 74 (14.4%) respondents, this factor is responsible in some extent, while 71 (13.8%) respondents consider that this factor is not responsible at all. Remaining 62 (12%) respondents consider this factor as a chief responsible factor. Following figure 4.35 shows the distribution of respondents on the basis of change in plan or situation as a responsible factor.

Figure 4.35 Distribution of Respondents on the basis of Change in Plan or Situation as a responsible factor



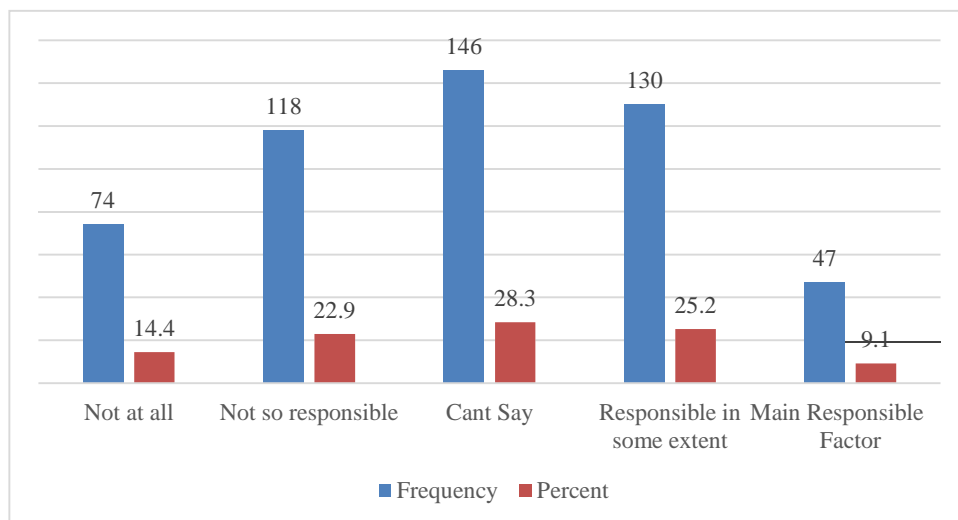
Next factor responsible for non-availability of bank loan is lower credit rating or deprived CIBIL report. Following table 4.36 shows the details regarding this question.

Table 4.36 Lower Credit Rating or Poor CIBIL Report as a factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	74	14.4	14.4	14.4
Not so responsible	118	22.9	22.9	37.3
Can't Say	146	28.3	28.3	65.6
Responsible in some extent	130	25.2	25.2	90.9
Main Responsible Factor	47	9.1	9.1	100
Total	515	100	100	

As per the informations available in the table above, majority of the respondents 146 (28.3%) are not able to say anything about this element. 130 (25.2%) respondents consider that this factor is responsible in some extent, while, according to 118 (22.9%) respondents, this factor is not so responsible. 74 (14.4%) respondents consider that this factor is not responsible at all and remaining 47 (9.1%) respondents consider that this is the key responsible factor for non-availability of bank finance. Figure 4.36 below shows the distribution of respondents on the basis of lower credit rating or deprived CIBIL report as a factor.

Figure 4.36 Distribution of Respondents on the basis of Lower Credit Rating or Poor CIBIL Report



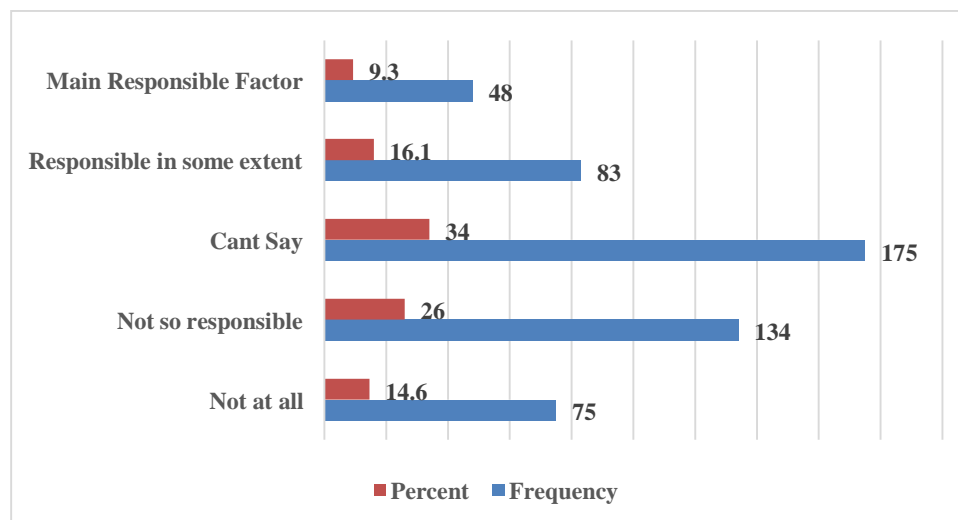
Next factor asked to the respondents is high amount of loan applied. Following table 4.37 shows the details of respondents about this factor.

Table 4.37 High Amount of Loan Applied as a factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	75	14.6	14.6	14.6
Not so responsible	134	26	26	40.6
Can't Say	175	34	34	74.6
Responsible in some extent	83	16.1	16.1	90.7
Main Responsible Factor	48	9.3	9.3	100
Total	515	100	100	

As per the informations available in the table above, majority of the respondents 175 (34%) are not able to say anything about this element. While 134 (26%) respondents consider that this factor is not so responsible. According to 83 (16.1%) respondents, this factor is responsible in some extent. As per the view of 75 (14.6%) respondents, this factor is not responsible in some extent. As per the view of 75 (14.6%) respondents, this factor is not responsible at all. 48 (9.3%) respondents consider that this factor is the chief responsible factor for denying the loan by the banks. Following figure 4.37 shows the distribution of respondents on the basis of high amount of loan applied as a responsible element.

Figure 4.37 Distribution of Respondents on the basis of High Amount of Loan Applied as a responsible factor.



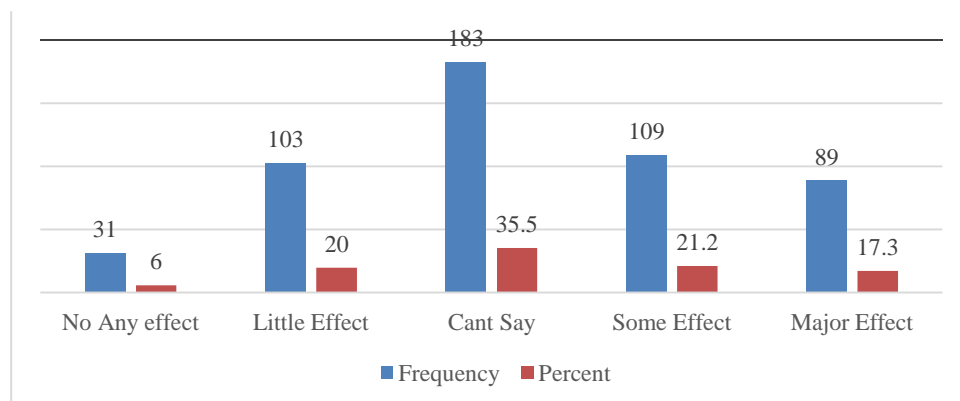
Next question of the questionnaire goes to the adverse effects if entrepreneurs has not received the loan in time or amount applied or failure in getting loan. First effect asked to respondents is impact of financial position of the business. Following table 4.38 shows the data regarding the same. As per the statistics, majority of the respondents 183 (35.5%) are not clear about the effect of this factor. While, according to 109 (21.2%) respondents, this factor has make some effects on financial position of the business. 103 (20%) respondents consider that there is a little effect on this, whereas 89 (17.3%) respondents feel major effect and remaining 31 (6%) respondents consider that there is not any impact on financial position of the business.

Table 4.38 Effect on Financial Position of the Business

	Frequency	Percent	Valid Percent	Cumulative Percent
No Any effect	31	6	6	6
Little Effect	103	20	20	26
Can't Say	183	35.5	35.5	61.6
Some Effect	109	21.2	21.2	82.7
Major Effect	89	17.3	17.3	100
Total	515	100	100	

Following figure 4.38 presents the distribution of respondents on the basis of impact on financial position of business.

Figure 4.38 Distribution of Respondents on the basis of Effect on Financial Position of Business



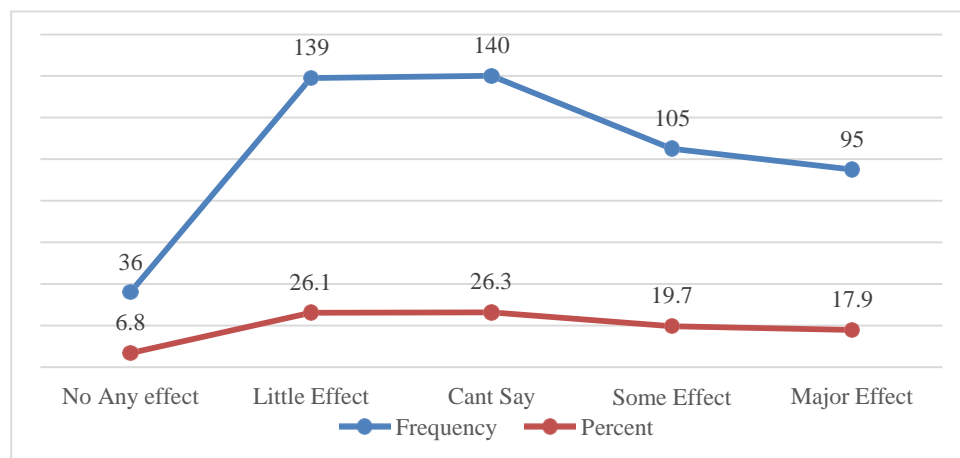
Next factor selected to tap the impact of non-availability of bank loan is influence on productivity of the business. Following table 4.39 displays the details regarding the same. As per the data available, majority of the respondents 140 (26.3%) are not able to say anything about influence over this element. While, 139 (26.1%) respondents consider that there is a little effect over this element. According to 105 (19.7%) respondents, there is some effect on this element. As per 95 (17.9%) respondents, a major effect is recorded. Remaining 36 (6.8%) respondents consider that there is not any impact over this factor.

Table 4.39 Effect on Productivity of the Business

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
No Any effect	36	6.8	7	7
Little Effect	139	26.1	27	34
Can't Say	140	26.3	27.2	61.2
Some Effect	105	19.7	20.4	81.6
Major Effect	95	17.9	18.4	100
Total	515	96.8	100	

Following figure 4.39 presents the distribution of respondents on the basis of effect on productivity of business.

Figure 4.39 Distribution of Respondents on the basis of Effect on Productivity of Business



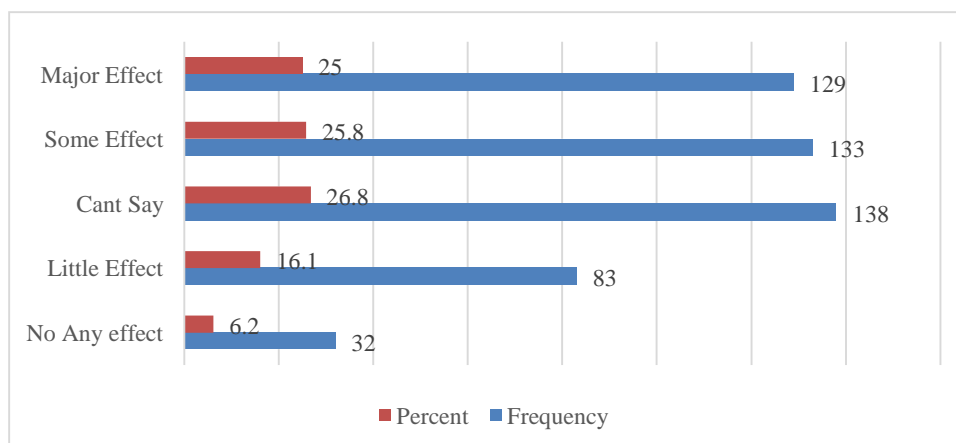
Next element on which impact being asked is future planning of the business. Following table 4.40 displays the details regarding this factor. As per the data available, majority of the respondents 138 (26.8%) are not able to say about any impact over this element. While, 133 (25.8%) of respondents consider that there is some effect over this element. According to 129 (25%) respondents, there is high impact on future planning of the business. 83 (16.1%) of respondent have shown little impact and remaining 32 (6.2%) of respondents say that there is not any impact over this element.

Table 4.40 Effect on Future Planning of Business

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
No Any effect	32	6.2	6.2	6.2
Little Effect	83	16.1	16.1	22.3
Can't Say	138	26.8	26.8	49.1
Some Effect	133	25.8	25.8	75
Major Effect	129	25	25	100
Total	515	100	100	

Following figure 4.40 displays the distribution of respondents on the basis of effect on future planning of business.

Figure 4.40 Distribution of Respondents on the basis of Effect on Future Planning of Business



Next factor asked for impact, is working capital. Following table 4.41 presents the data of respondents about effect on working capital. As per the analysis of data, majority of the respondents 196 (38.1%) agree that there is some impact on working capital, when bank loan

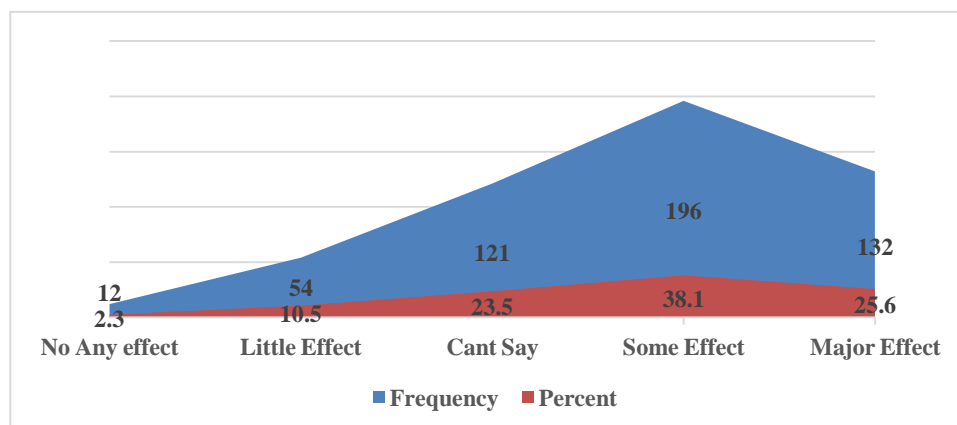
is not available, and according to 132 (25.6%) respondents, there is major effect on working capital. On the other hand, 121 (23.5%) of respondents are not able to say about any impact over it. 54 (10.5%) of respondents consider that there is a little impact only and as per 12 (2.3%) of respondents, there is not any impact on working capital.

Table 4.41 Effect on Working Capital

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
No Any effect	12	2.3	2.3	2.3
Little Effect	54	10.5	10.5	12.8
Can't Say	121	23.5	23.5	36.3
Some Effect	196	38.1	38.1	74.4
Major Effect	132	25.6	25.6	100
Total	515	100	100	

Figure 4.41 below shows the distribution of respondents on the basis of effect on working capital.

Figure 4.41 Distribution of Respondents on the basis of Effect on Working Capital



Next factor asked to the respondents is impact on sales/turnover of the business. Table 4.42 below shows the informations regarding this factor. As per the analyzed data, majority of the

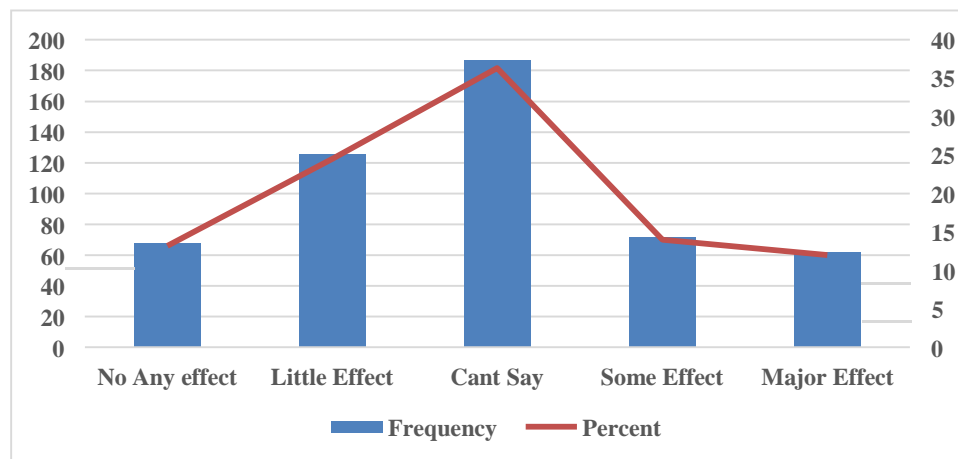
respondents 187 (36.3%) are not able to say anything about this factor. Whereas, 126 (24.5%) of respondents consider that there is a little effect on sales/turnover of the business. 72 (14%) of the respondents believe that there is some effect on this factor. Whereas, according to 68 (13.2%) respondents, there is no any effect on sales or turnover. Remaining 62 (12%) of respondents have agreed that there is major effect on this factor.

Table 4.42 Effect on Sales/Turnover of the Business

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
No Any effect	68	13.2	13.2	13.2
Little Effect	126	24.5	24.5	37.7
Can't Say	187	36.3	36.3	74
Some Effect	72	14	14	88
Major Effect	62	12	12	100
Total	515	100	100	

Figure 4.42 below shows the distribution of respondents on the basis of sales or turnover of the business.

Figure 4.42 Distribution of Respondents on the basis of Sales/Turnover of the Business



Next factor considered as affected is Research and Development. Following table 4.43 shows the data regarding this question. As per the analyzed data, majority of the respondents 178 (34.6%) are not able to say anything about this element. While, 126 (24.5%) of respondents believe that there is a little effect on research and development. 87 (16.9%) respondents

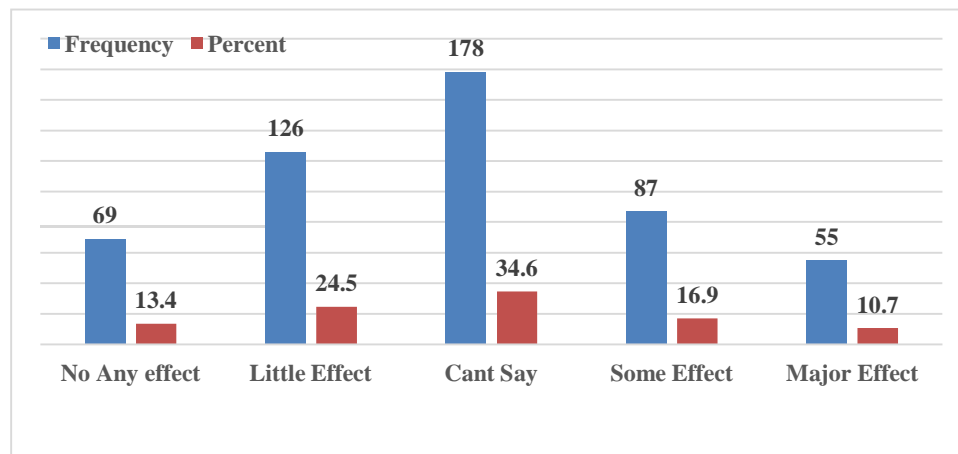
believe that there is some effect on this factor. 69 (13.4%) respondents believe that there is no any effect on this factor, and according to 55 (10.7%) respondents, there is a major effect over this factor.

Table 4.43 Effect on Research and Development

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
No Any effect	69	13.4	13.4	13.4
Little Effect	126	24.5	24.5	37.9
Can't Say	178	34.6	34.6	72.4
Some Effect	87	16.9	16.9	89.3
Major Effect	55	10.7	10.7	100
Total	515	100	100	

Figure 4.43 below presents distribution of respondents on the basis of effect on research and development.

Figure 4.43 Distribution of Respondents on the basis of Effect on Research and Development



Last factor asked to the respondents under this questions is effect on human resource management. Following table 4.44 shows the details regarding this factor. Majority of the respondents 167 (32.4%) are not able to say anything about this factor. According to 142

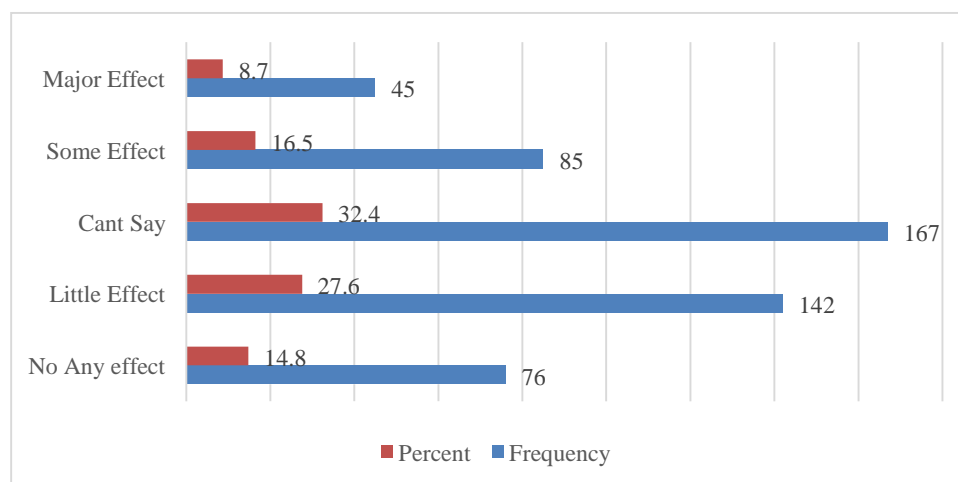
(27.6%) of the respondents, there is a little effect on human resource management. 85 (16.5%) believe that there is some effect. As per 76 (14.8%) respondents, there is no any effect on human resource management. According to 45 (8.7%) respondents, there is a major effect over this factor.

Table 4.44 Effect on Human Resource Management

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
No Any effect	76	14.8	14.8	14.8
Little Effect	142	27.6	27.6	42.3
Can't Say	167	32.4	32.4	74.8
Some Effect	85	16.5	16.5	91.3
Major Effect	45	8.7	8.7	100
Total	515	100	100	

Figure 4.44 below shows the distribution of respondents on the basis of human resource management.

Figure 4.44 Distribution of Respondents on the basis of Human Resource Management



Next and last question of the questionnaire belongs to perceptions of entrepreneurs about bank finance. Total there are fifteen factors involved in this question. The first point asks

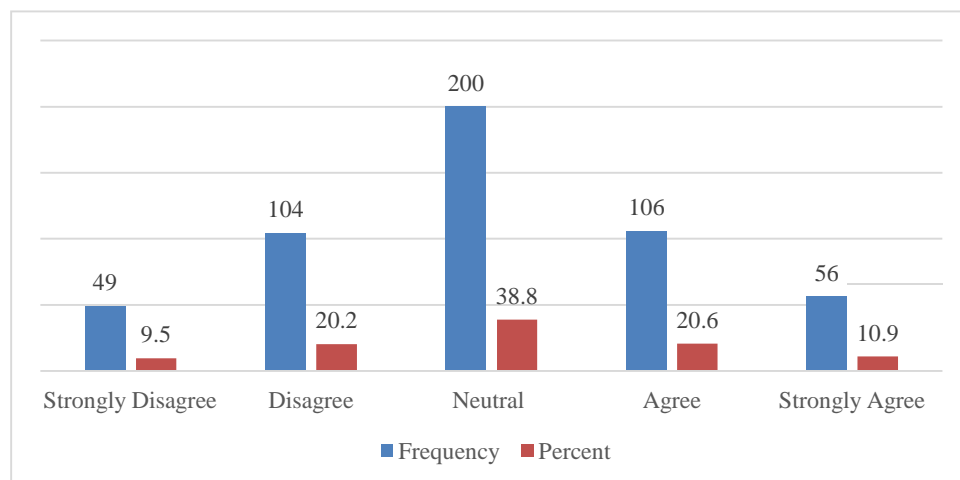
about the various sources of finance. The exact question is ‘Number of options for finance have increased since last few years’. Following table 4.45 presents the opinion of respondents about the question asked. Majority of the respondents 200 (38.8%), are neutral about this question, whereas 106 (20.6%) respondents agree with this statement. 104 (20.2%) respondents are disagree about the statement, whereas 56 (10.9%) respondents are strongly agree. 49 (9.5%) of respondents are strongly disagree about the statement.

Table 4.45 Increase in Number of Options for Finance

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	49	9.5	9.5	9.5
Disagree	104	20.2	20.2	29.7
Neutral	200	38.8	38.8	68.5
Agree	106	20.6	20.6	89.1
Strongly Agree	56	10.9	10.9	100
Total	515	100	100	

Figure 4.45 below presents the distribution of respondents on the basis of Increase in number of options for finance.

Figure 4.45 Distribution of Respondents on the basis of Increase in Number of Options for Finance



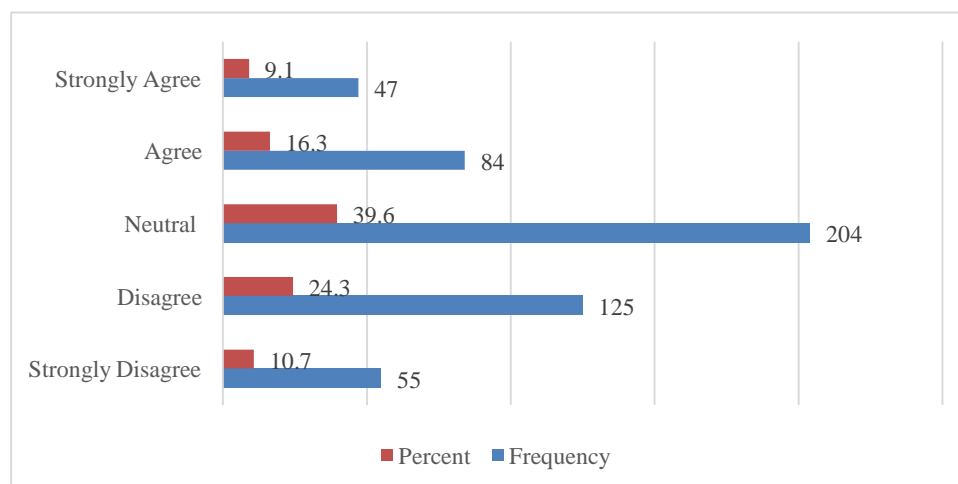
The next statement under this question is ‘I am aware about the most suitable source of finance from various sources available’ Following table 4.46 presents the data regarding this statement.

Table 4.46 Awareness about Most Suitable Source of Finance from various sources available

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	55	10.7	10.7	10.7
Disagree	125	24.3	24.3	35
Neutral	204	39.6	39.6	74.6
Agree	84	16.3	16.3	90.9
Strongly Agree	47	9.1	9.1	100
Total	515	100	100	

As per the details available in the table above, majority of the respondents 204 (39.6%) wants to be neutral about the statement. Whereas 125 (24.3%) respondents are disagree with the statement. 84 (16.3%) of the respondents are agree with the statement and 55 (10.7%) are strongly disagree. Remaining 47 (9.1%) of the respondents are strongly agree with the statement. Figure 4.46 below presents the distribution of respondents on the basis of awareness about most suitable source of finance from various sources available.

Figure 4.46 Distribution of Respondents on the basis of Awareness about Most Suitable Source of Finance from Various Sources Available



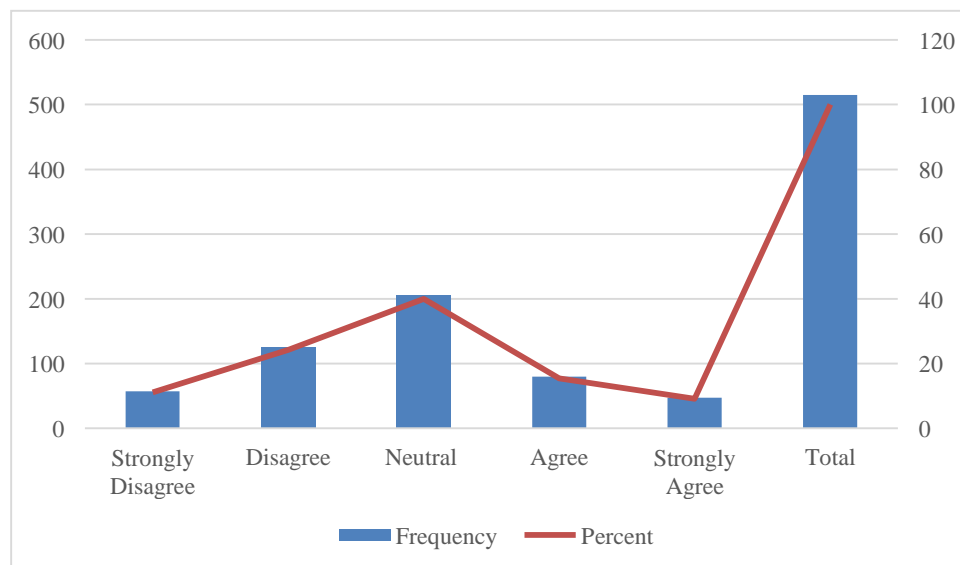
Next statement under this question is ‘Getting finance is now more easy as compare to three years back’. Table 4. 47 below shows the data regarding this statement.

Table 4.47 Getting Finance is more easy with compare to past

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	57	11.1	11.1	11.1
Disagree	125	24.3	24.3	35.3
Neutral	206	40	40	75.3
Agree	80	15.5	15.5	90.9
Strongly Agree	47	9.1	9.1	100
Total	515	100	100	

As per the data available in the table above, majority of the respondents 206 (40%) wants to be neutral, whereas 125 (24.3%) respondents are disagree with this statement. On the other hand, 80 (15.5%) respondents believe that this statement is true. 57 (11.1%) of the respondents strongly disagree with the statement and remaining 47 (9.1%) of the respondents are strongly agree. Figure 4.47 below shows the distribution of respondents on the basis of getting finance is more easy with compare to past.

Figure 4.47 Getting Finance is more easy with compare to past



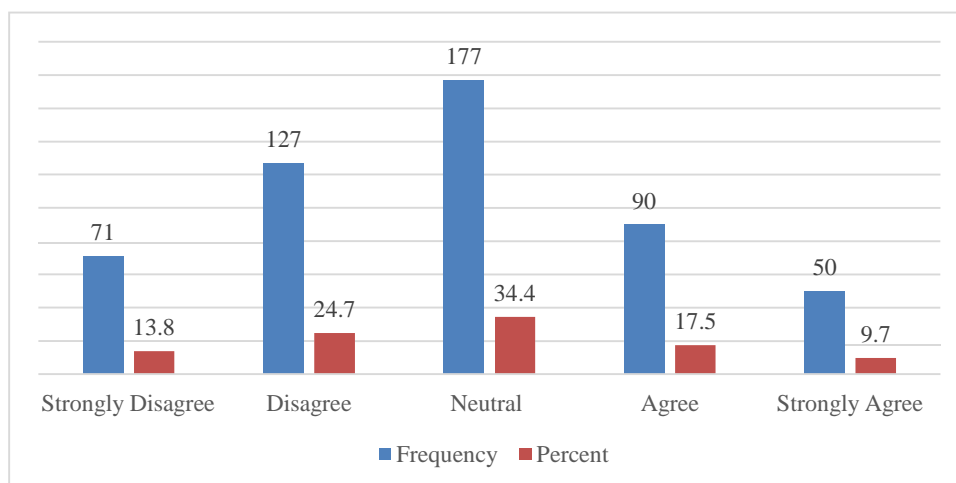
Next statement under this category is ‘I know about preparation about getting finance in future’. Following table 4.48 presents the data regarding this question.

Table 4.48 Awareness regarding future preparation for getting finance

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	71	13.8	13.8	13.8
Disagree	127	24.7	24.7	38.4
Neutral	177	34.4	34.4	72.8
Agree	90	17.5	17.5	90.3
Strongly Agree	50	9.7	9.7	100
Total	515	100	100	

As per the data available in the table above, majority of the respondents 177 (34.4%) are neutral about this statement. Whereas 127 (24.7%) of respondents are disagree. 90 (17.5%) of respondents are agree and 71 (13.8%) are strongly disagree. Remaining 50 (9.7%) respondents are strongly agree with the statement. Figure 4.48 below presents the distribution of respondents on the basis of awareness regarding future preparation for getting finance.

Figure 4.48 Distribution of Respondents on the basis of Awareness regarding Future Preparation for Getting Finance



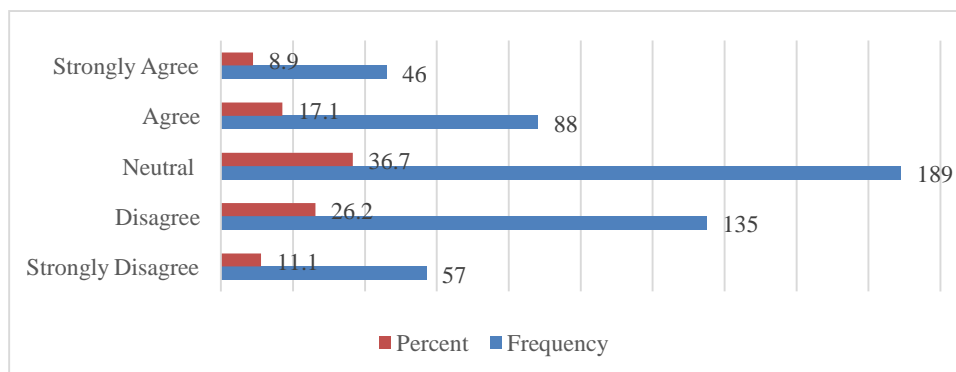
Next statement under this question asks ‘Nature, size and financial position of business may be key factor for availing finance’. Following table 4.49 presents the details regarding the same.

Table 4.49 Nature, Size and Financial Condition of Business as a Key Factor to avail finance

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	57	11.1	11.1	11.1
Disagree	135	26.2	26.2	37.3
Neutral	189	36.7	36.7	74
Agree	88	17.1	17.1	91.1
Strongly Agree	46	8.9	8.9	100
Total	515	100	100	

As per the data presented in the table above, majority of the respondents 189 (36.7%) are neutral about the statement, whereas 135 (26.2%) of them are disagree. 88 (17.1%) of respondents are agree and 57 (11.1%) of the respondents are strongly disagree. Remaining 46 (8.9%) of respondents are strongly agree with the statement. Following figure 4.49 presents the distribution of respondents on the basis of nature, size and financial condition of business as a key factor to avail finance.

Figure 4.49 Distribution of Respondents on the basis of Nature, Size and Financial Condition of Business as a Key Factor to avail finance



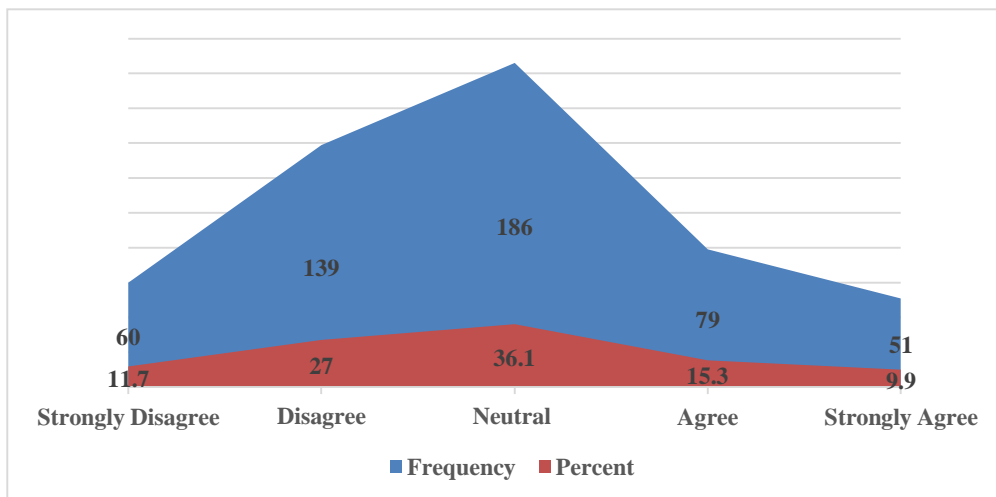
Next statement in this questions is ‘I would like to get advice, help and guidance for future requirement of finance from now’. Following table 4.50 presents the analyzed data regarding the statement.

Table 4.50 Advice, Guidance and Help for Finance in future

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	60	11.7	11.7	11.7
Disagree	139	27	27	38.6
Neutral	186	36.1	36.1	74.8
Agree	79	15.3	15.3	90.1
Strongly Agree	51	9.9	9.9	100
Total	515	100	100	

As per the details given in the table above, majority of the respondents 186 (36.1%) wants to be neutral about the statement. Whereas, 139 (27%) of them are disagree. 79 (15.3%) of respondents are agree with the statement and 60 (11.7%) are strongly disagree. Remaining 51 (9.9%) respondents are strongly agree with the statement. Following figure 4.50 presents the distribution of respondents on the basis of advice, guidance and help for finance in future.

Figure 4.50 Distribution of Respondents on the basis of Advice, Guidance and Help for Future Finance



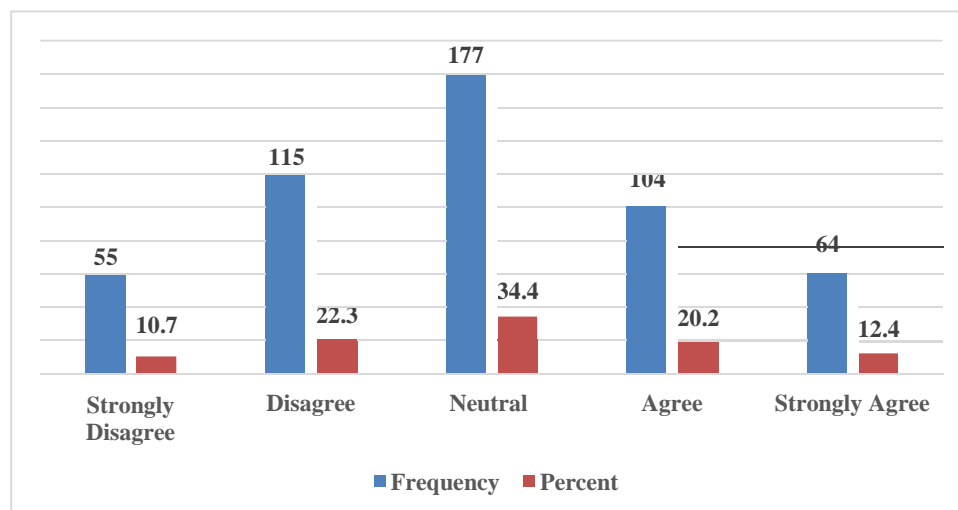
Next statement in the question is 'Bank loan is easily available with compare to other sources of finance'. Following table 4.51 presents the data regarding the same.

Table 4.51 Easy Availability of Bank Loan with compare to Other Sources

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	55	10.7	10.7	10.7
Disagree	115	22.3	22.3	33
Neutral	177	34.4	34.4	67.4
Agree	104	20.2	20.2	87.6
Strongly Agree	64	12.4	12.4	100
Total	515	100	100	

As per the data available in the table above, majority of the respondents 177 (34.4%) are neutral about the statement. Whereas 115 (22.3%) of respondents are disagree with the statement and 104 (20.2%) are agree. The respondents who are strongly agree to the statement are 64 (12.4%) and who are strongly disagree are 55 (10.7%). Figure 4.51 below presents the distribution of respondents on the basis of easy availability of bank loan with compare to other sources.

Figure 4.51 distribution of respondents on the basis of easy availability of bank loan with compare to other source



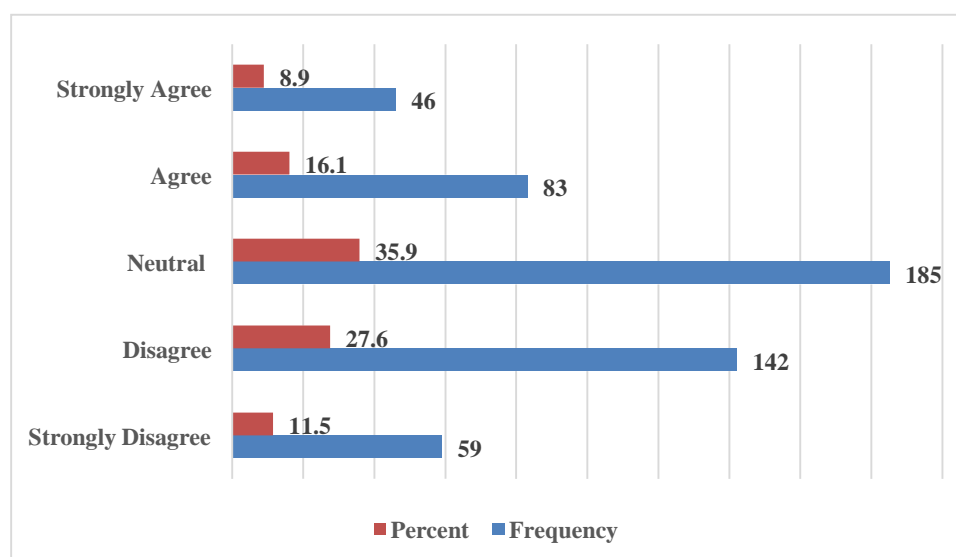
Next statement under this question asks to respondents that ‘Bank loan is more effective than other sources of finance’. Table 4.52 below presents the data regarding the same.

Table 52 Bank Loan as an Effective than Other Sources of Finance

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	59	11.5	11.5	11.5
Disagree	142	27.6	27.6	39
Neutral	185	35.9	35.9	75
Agree	83	16.1	16.1	91.1
Strongly Agree	46	8.9	8.9	100
Total	515	100	100	

As per the data available in the table above, most of the respondents 185 (35.9%) are neutral about the statement, whereas 142 (27.6%) respondents disagree. 83 (16.1%) respondents are agree and 59 (11.5%) respondents are strongly disagree. Remaining 46 (8.9%) are strongly agree. Following figure 4.52 presents the distribution of respondents on the basis of bank loan as more effective source than other sources.

Figure 4.52 Distribution of Respondents on the basis of bank loan as more effective source of finance than other



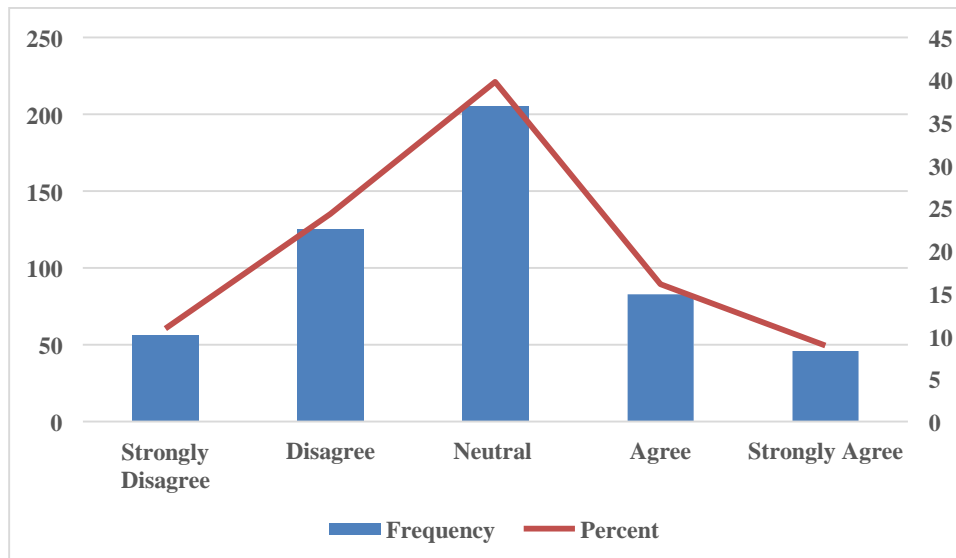
Next statement is 'Government support is easily available to entrepreneurs'. Following table 4.53 presents the data regarding the question.

Table 4.53 Government Support Availability to Entrepreneurs

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	56	10.9	10.9	10.9
Disagree	125	24.3	24.3	35.1
Neutral	205	39.8	39.8	75
Agree	83	16.1	16.1	91.1
Strongly Agree	46	8.9	8.9	100
Total	515	100	100	

As per the data analyzed in the table above, majority of the respondents 205 (39.8%) are neutral, whereas 125 (24.3%) disagree with this statement. The respondents who are agree 83 (16.1%) and 56 (10.9%) are strongly disagree. Remaining 46 (8.9%) respondents are strongly agree with the statement. Following figure 4.53 presents the distribution of respondents on the basis of government support availability.

Figure 4.53 Distribution of Respondents on the basis of availability of Government Support



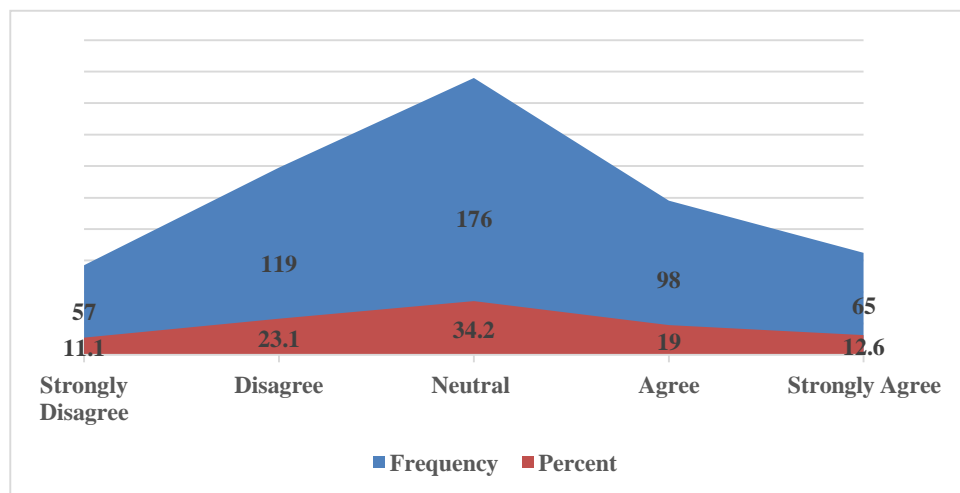
Next statement under this question is ‘Interest rate of bank loan is lower than other sources of finance for entrepreneurs’. Following table 4.54 presents the data regarding same.

Table 4.54 Interest rate of bank loan is lower than other sources

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	57	11.1	11.1	11.1
Disagree	119	23.1	23.1	34.2
Neutral	176	34.2	34.2	68.3
Agree	98	19	19	87.4
Strongly Agree	65	12.6	12.6	100
Total	515	100	100	

As per the data presented in the table above, majority of the respondents 176 (34.2%) are neutral about the statement. 119 (23.1%) of respondents are disagree, 98 (19%) are agree and 65 (12.6%) are strongly agree and 57 (11.1%) are strongly disagree. Following figure 4.54 presents the distribution of respondents on the basis of lower interest rate of banks than other sources.

Figure 4.54 Distribution of Respondents on the basis of Lower Interest Rate of Banks



Next statement under this question is ‘Bank loan process is easy than other sources of finance for entrepreneurs’. Following figure 4.55 presents the data regarding this question.

Table 4.55 Bank Loan Process is Easy than other Sources of Finance

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	59	11.5	11.5	11.5
Disagree	123	23.9	23.9	35.3
Neutral	201	39	39	74.4
Agree	86	16.7	16.7	91.1
Strongly Agree	46	8.9	8.9	100
Total	515	100	100	

As per the data shown in the above table, majority of the respondents 201 (39%) are neutral, 123 (23.9%) of respondents are disagree with the statement. 86 (16.7%) respondents are agree, whereas 59 (11.5%) are strongly disagree. Remaining 46 (8.9%) are strongly agree. Following figure 4.55 presents distribution of respondents on the basis of easy bank loan process with compare to other sources.

Next statement under this question is 'Relationship between bank and entrepreneurs is key factor to avail the loan'. Following table 4.56 presents the details about the question.

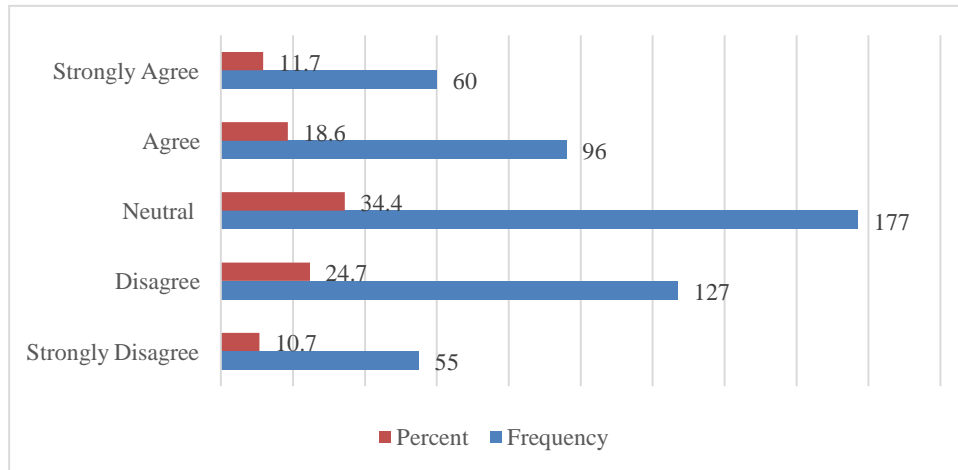
Table 4.56 Relationship between Bank and Entrepreneur as a Key Element

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	55	10.7	10.7	10.7
Disagree	127	24.7	24.7	35.3
Neutral	177	34.4	34.4	69.7
Agree	96	18.6	18.6	88.3
Strongly Agree	60	11.7	11.7	100
Total	515	100	100	

As per the data analyzed in the table above, majority of the respondents 177 (34.4%) are neutral about the statement, whereas 127 (24.7%) respondents are disagree with the statement. 96 (18.6%) respondents are agree with this statement and 60 (11.7%) respondents are strongly agree. Remaining 55 (10.7%) respondents are strongly disagree with the

statement. Following figure 4.56 presents the distribution of respondents on the basis of relationship between bank and entrepreneurs as a key element.

Figure 4.56 Distribution of respondents on the basis of relationship between bank and respondent



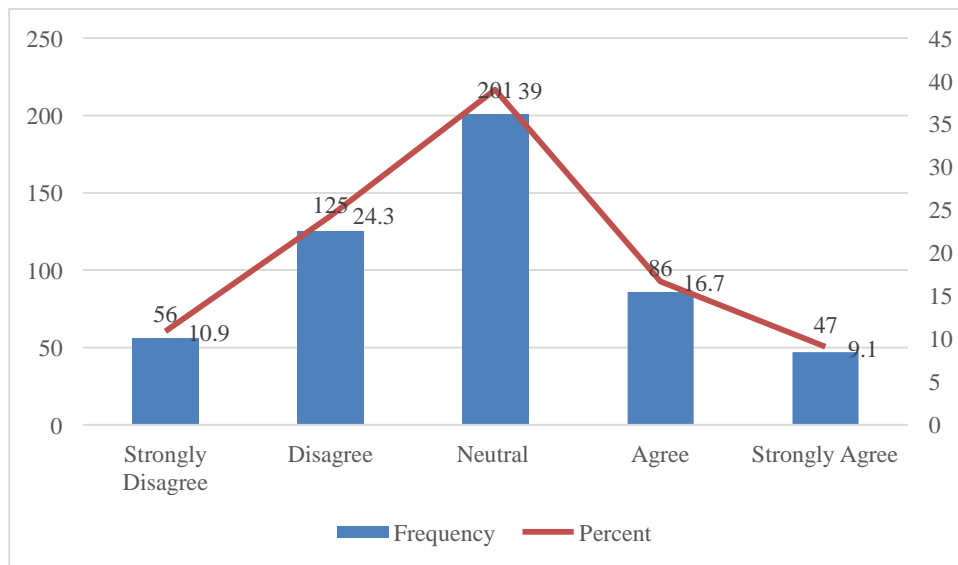
Next statement in the question is ‘Availability of bank loan to experienced entrepreneur is easy’. Following table 4. 57 shows the data analyzed for the same.

Table 4.57 Experienced Entrepreneur and Bank Loan Availability

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	56	10.9	10.9	10.9
Disagree	125	24.3	24.3	35.1
Neutral	201	39	39	74.2
Agree	86	16.7	16.7	90.9
Strongly Agree	47	9.1	9.1	100
Total	515	100	100	

As per the data analyzed, majority of the respondents 201 (39%) are neutral about this statement. 125 (24.3%) are disagree with the statement, whereas 86 (16.7%) are agree. 56 (10.9%) of the respondents are strongly disagree with the statement and remaining 47 (9.1%) are strongly agree. Following figure 4.57 presents the distribution of respondents on the basis of experience of entrepreneur and availability of bank loan.

Figure 4.57 Distribution of Respondents on the basis of Experience of Entrepreneurs and Availability of Bank Loan



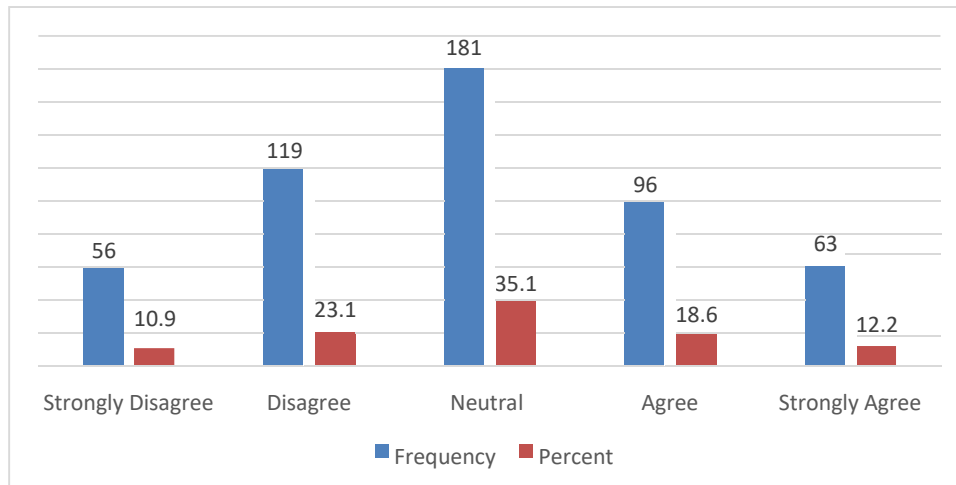
Next statement in this question is “Availability of bank loan is easy to large enterprises than SMEs”. Following table 4.58 presents the analyzed data about the same.

Table 4.58 Availability of bank loan on the basis of Size of Enterprise

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	56	10.9	10.9	10.9
Disagree	119	23.1	23.1	34
Neutral	181	35.1	35.1	69.1
Agree	96	18.6	18.6	87.8
Strongly Agree	63	12.2	12.2	100
Total	515	100	100	

As per the data analyzed in the table above, majority of the respondents 181 (35.1%) are neutral about the statement, whereas 119 (23.1%) respondents are not agree. 96 (18.6%) respondents are agree with the statement and 63 (12.2%) strongly agree. Remaining 56 (10.9%) respondents are strongly disagree with the statement. Following figure 4.58 presents the distribution of respondents on the basis of easy availability of bank loan to large enterprises.

Figure 4.58 Distribution of Respondents on the basis of Easy Availability of Bank Loan to Large Enterprises



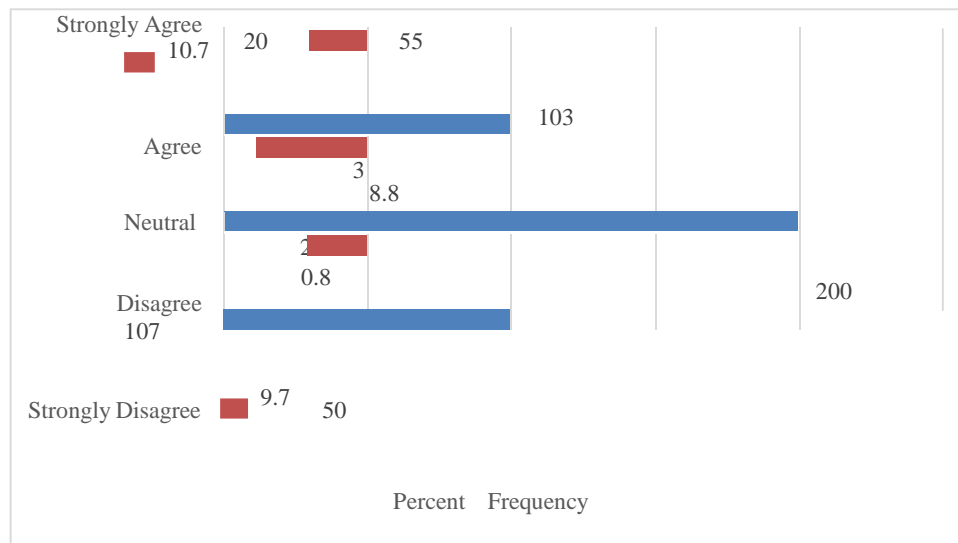
Under this question, the last statement is “Entrepreneurs are harassed by bankers even if they are fit to avail the loan”. Following table 4.59 presents availability of bank loan and harassment by the bank to entrepreneurs.

Table 4.59 Availability of Bank Loan and Hassels by Bank

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	50	9.7	9.7	9.7
Disagree	107	20.8	20.8	30.5
Neutral	200	38.8	38.8	69.3
Agree	103	20	20	89.3
Strongly Agree	55	10.7	10.7	100
Total	515	100	100	

As per the data analyzed in the table above, majority of the respondents 200 (38.8%) are neutral about the statement, 107 (20.8%) of respondents are disagree whereas 103 (20%) are agree. 55 (10.7%) respondents are strongly agree and remaining 50 (9.7%) are strongly disagree. Following figure 4.59 presents the distribution of respondents on the basis of availability of bank loan and harassment by bank.

Figure 4.59 Distribution of Respondents on the basis of Availability of Bank Loan and Hassels by Bank



4.3 Analysis of Questionnaire for Bank Managers:

After analyzing the questionnaire developed for the entrepreneurs, analysis of questionnaire for bankers are present below. The questionnaire for the bankers contains four major questions including various statements under each questions. All questions are based on likert scale technique. Researcher has selected all those banks, from where selected entrepreneurs are availing banking services. So researcher has selected total 53 bank managers as respondents from 14 different banks, among them six are nationalized, seven are private sector banks and remaining are cooperative banks. Following table 4.60 presents the list of selected banks with number of branches selected for each bank.

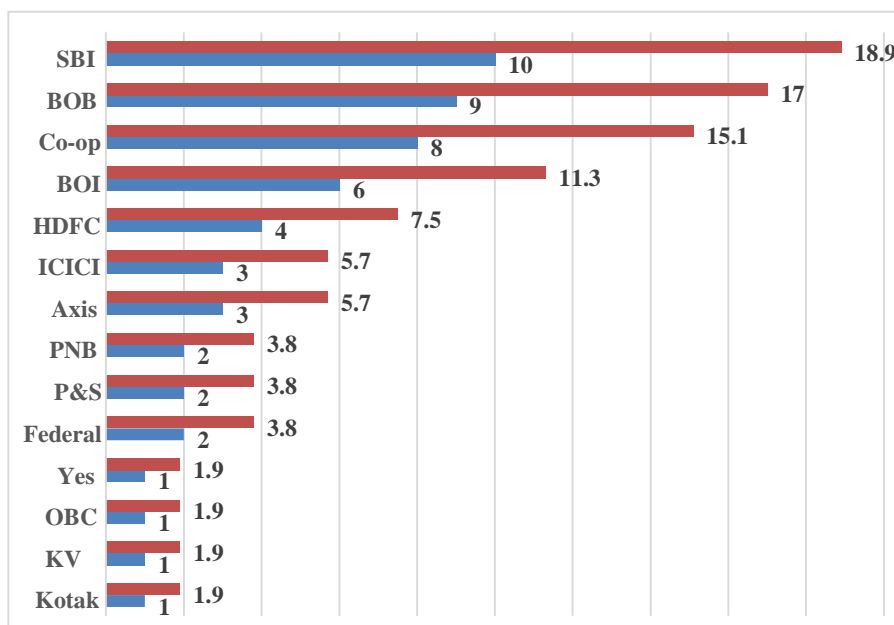
Table 4.60 List of Selected Banks and Number of Branches

Banks	Frequency [No. of Branches]	Percent	Valid Percent	Cumulative Percent
Axis Bank	3	5.7	5.7	5.7
Bank of Baroda	9	17	17	22.6
Bank of India	6	11.3	11.3	34
Co-operative Banks	8	15.1	15.1	49.1
Federal Bank	2	3.8	3.8	52.8
HDFC Bank	4	7.5	7.5	60.4

ICICI Bank	3	5.7	5.7	66
Kotak Mahindra Bank	1	1.9	1.9	67.9
Karur Vyasya Bank	1	1.9	1.9	69.8
Oriental Bank of Commerce	1	1.9	1.9	71.7
Punjab & Sindh Bank	2	3.8	3.8	75.5
Punjab National Bank	2	3.8	3.8	79.2
State Bank of India	10	18.9	18.9	98.1
Yes Bank	1	1.9	1.9	100
Total	53	100	100	

As per the list of selected banks for this study, State Bank of India (SBI) stands first with highest number of branches which are 10 (18.9%) followed by 9 (17%) branches of Bank of Baroda, 8 (15.1%) branches of various cooperative banks, 6 (11.3%) branches of Bank of India, 4 (7.5%) branches of HDFC Bank, 3 (5.7%) branches each of Axis Bank and ICICI Bank, 2 (3.8%) branches each of Federal Bank, Punjab National Bank and Punjab & Sindh Bank. For remaining all four banks, 1 (1.9%) branches of each are selected. Following figure 4.60 presents the distribution of banks and number of branches.

Figure 4.60 Distribution of Banks and Number of Branches of each Bank



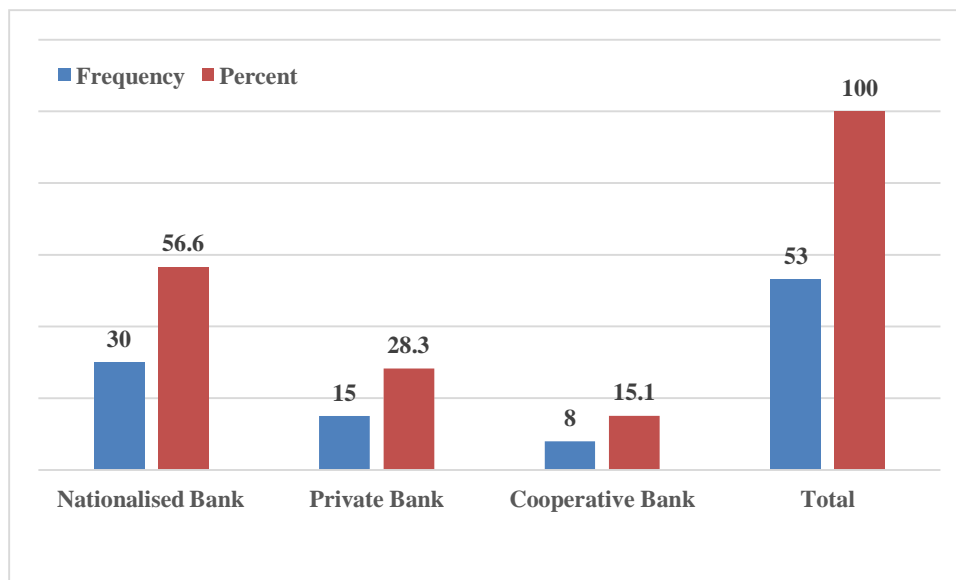
On the basis of type of banks, following table 4.61 presents the details. As per the analyses available in the table below, majority of the selected bank managers 30 (56.6%) belongs to nationalized banks, followed by private sector banks 15 (28.3%) and cooperative bank 8 (15.1%).

Table 4.61 Distribution of Bank Managers on the basis of Type of Banks

Type of Bank	Frequency	Percent	Valid Percent	Cumulative Percent
Nationalized Bank	30	56.6	56.6	56.6
Private Bank	15	28.3	28.3	84.9
Cooperative Bank	8	15.1	15.1	100
Total	53	100	100	

Following figure 4.61 presents the distribution of bank managers on the basis of types of banks.

Figure 461 Distribution of Bank Managers on the basis of Types of Bank



The first question asked to the bankers is “Finance to MSMEs is always a priority for Government and RBI and various steps have been taken since now, though this sector is under developed due to financing gap. According to you, how each of the following factors responsible for the same?”

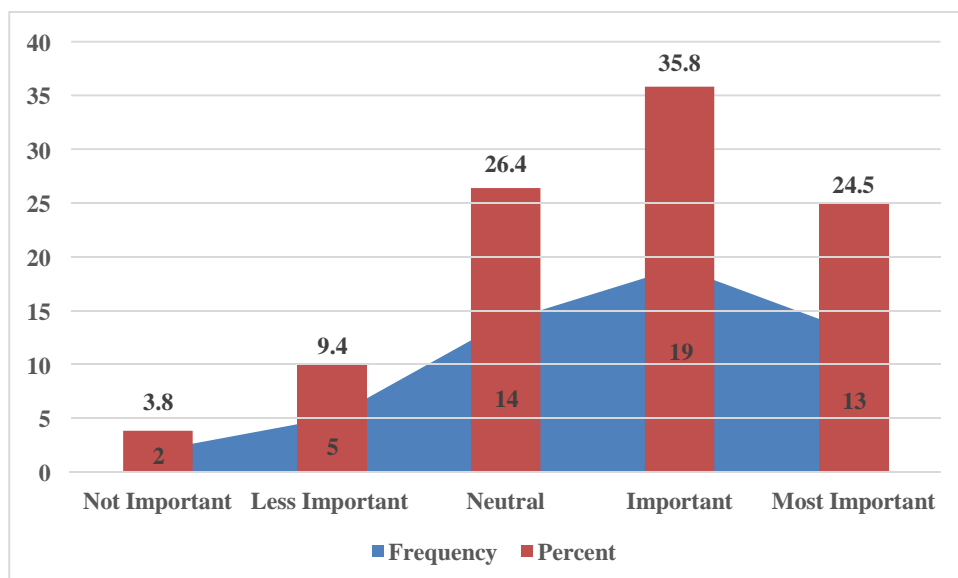
Under this question, the first responsible factor is ‘financing to MSMEs is more risky/high rate of NPA’. Following table 4.62 presents the opinion of bankers regarding this factor.

Table 4.62 Finance to MSMEs is Risky/Likely to be NPA

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	2	3.8	3.8	3.8
Less Important	5	9.4	9.4	13.2
Neutral	14	26.4	26.4	39.6
Important	19	35.8	35.8	75.5
Most Important	13	24.5	24.5	100
Total	53	100	100	

On the basis of data analyzed in the table above, majority of the bankers 19 (35.8%) believe this factor as important factor for financing gap in MSMEs, whereas 14 (26.4%) bankers are neutral about this issue. 13 (24.5%) of bankers believe this factor as most important factor. According to 5 (9.4%) bankers, this factor is less important and according to 2 (3.8%) bankers, this factor is not important. Following figure 4.62 presents the distribution of respondents on the basis of finance to MSMEs is risky/ likely to be NPS.

Figure 4.62 Finance to MSMEs is Risky/ Likely to be NPA



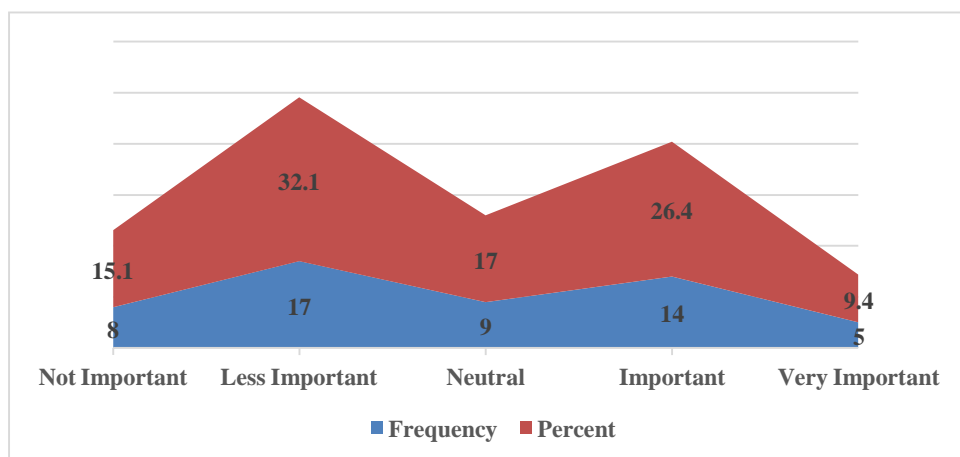
Second important factor asked to bankers as a responsible factor for financing gap in MSMEs is ‘Transaction/Processing cost is high’. Following table 4.63 presents the details regarding this factor.

Table 4.63 High Transaction/Processing Cost as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	8	15.1	15.1	15.1
Less Important	17	32.1	32.1	47.2
Neutral	9	17	17	64.2
Important	14	26.4	26.4	90.6
Very Important	5	9.4	9.4	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the bankers 17 (32.1%) believe this factor as less important and according to 14 (26.4%) bankers, this factor is important. 9 (17%) respondents are neutral about the statement, whereas 8 (15.1%) respondents believe this factor as not important. Remaining 5 (9.4%) respondents believe this as very important factor. Following figure 4.63 presents the distribution of bankers on the basis of high transaction/ processing cost as a responsible factor.

Figure 4.63 High Transaction/Processing Cost as a Responsible Factor



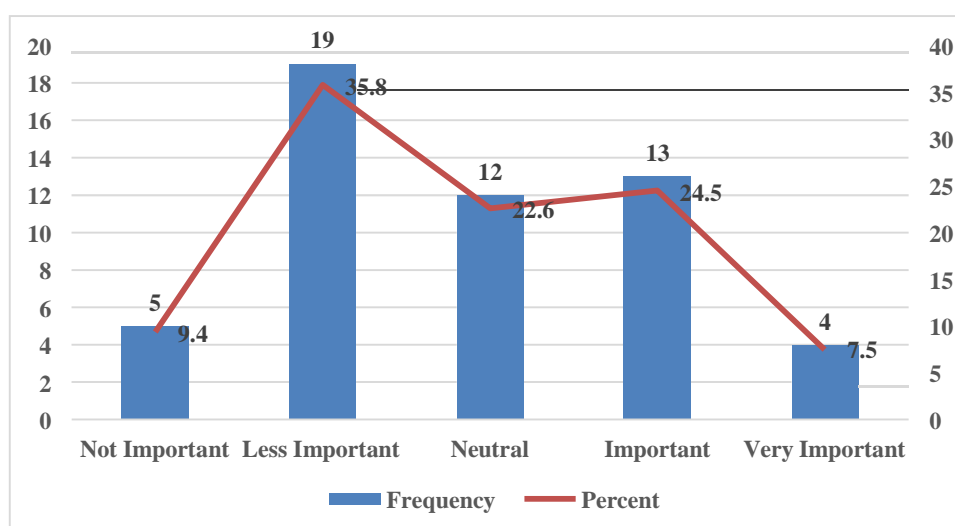
Third important factor asked to bankers as a responsible factor for financing gap in MSMEs is ‘First Generation of Entrepreneurs’. Following table 4.64 presents the details regarding this factor.

Table 4.64 First Generation of Entrepreneurs as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	5	9.4	9.4	9.4
Less Important	19	35.8	35.8	45.3
Neutral	12	22.6	22.6	67.9
Important	13	24.5	24.5	92.5
Very Important	4	7.5	7.5	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the bankers 19 (35.8%) believe this factor as less important and according to 13 (24.5%) bankers, this factor is important. 12 (22.6%) respondents are neutral about the statement, whereas 5 (9.4%) respondents believe this factor as not important. Remaining 4 (7.5%) respondents believe this factor as very important factor. Following figure 4.64 presents the distribution of bankers on the basis of first generation of entrepreneurs as a responsible factor.

Figure 4.64 First Generation of Entrepreneurs as a Responsible Factor



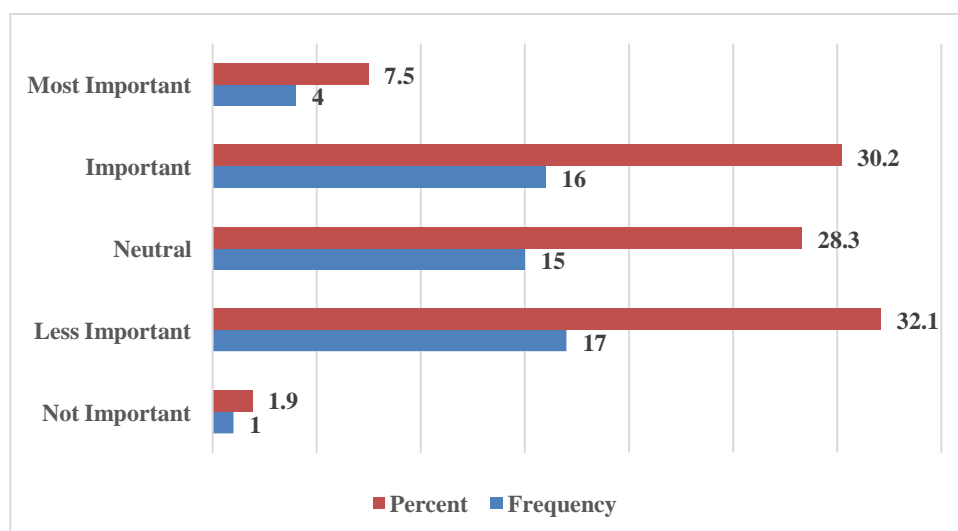
Next factor responsible for financing gap asked to entrepreneurs is 'lack of credit rating'. Following table 4.65 provides the details about this factor.

Table 4.65 Lack of Credit Rating as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	1	1.9	1.9	1.9
Less Important	17	32.1	32.1	34
Neutral	15	28.3	28.3	62.3
Important	16	30.2	30.2	92.5
Most Important	4	7.5	7.5	100
Total	53	100	100	

As per the data analyzed in the above table, majority of the respondents 17 (32.1%) consider this credit rating as less important factor. Whereas, according to 16 (30.2%) respondents, this factor is important, and 15 (28.3%) respondents are neutral about the statement. 4 (7.5%) respondents consider this factor as most important factor and according to only one respondent (1.9%), credit rating is not important for availing the finance. Following figure 4.65 presents the distribution of respondents on the basis of credit rating as a responsible factor.

Figure 4.65 Credit Rating as a Responsible Factor



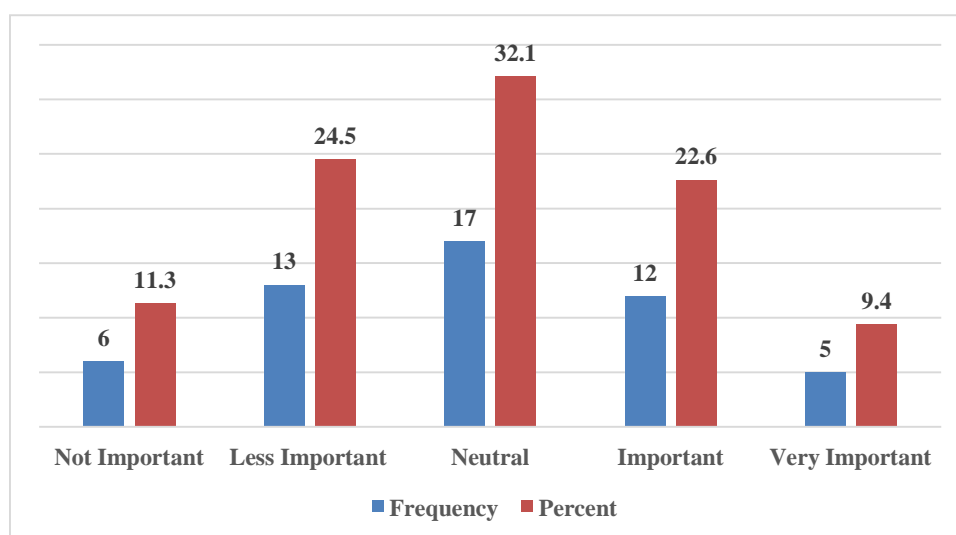
Next factor asked to bankers is ‘lack of proper infrastructure’ as responsible factor for non-availability of finance. Following table 4.66 presents the details about this statement.

Table 4.66 Lack of Proper Infrastructure as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	6	11.3	11.3	11.3
Less Important	13	24.5	24.5	35.8
Neutral	17	32.1	32.1	67.9
Important	12	22.6	22.6	90.6
Very Important	5	9.4	9.4	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 17 (32.1%) are neutral about the statement, whereas 13 (24.5%) respondents consider lack of proper infrastructure as less important factor. 12 (22.6%) respondents believe it important and 6 (11.3%) respondents consider it as not important. According to 5 (9.4%) respondents, this is very important factor for availing the finance. Following figure 4.66 presents the distribution of bankers on the basis of lack of proper infrastructure as a responsible factor.

Figure 4.66 Lack of Proper Infrastructure as a Responsible Factor



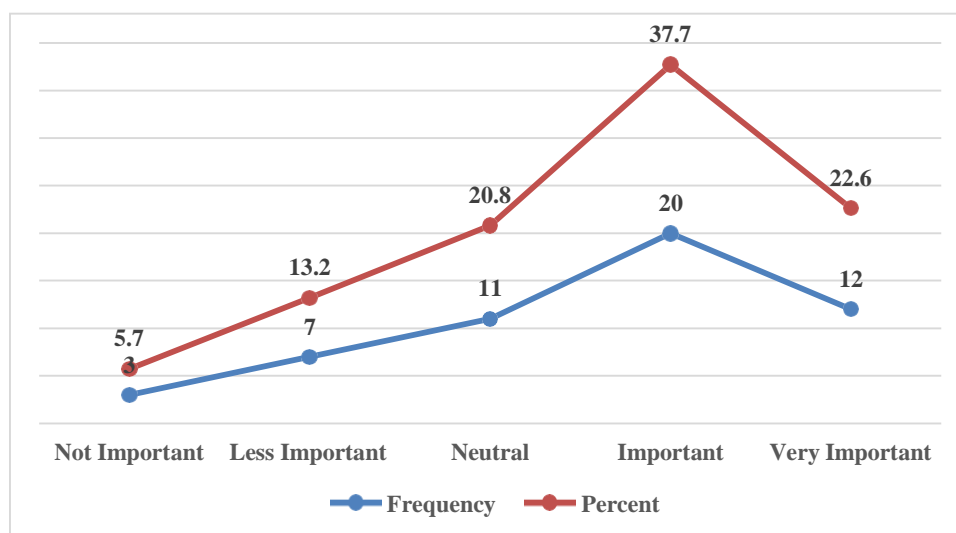
Last statement asked to the bankers under this question is 'Lack of marketing and branding'. Table 4. 67 below presents the details regarding this statement.

Table 4.67 Lack of Marketing and Branding

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	3	5.7	5.7	5.7
Less Important	7	13.2	13.2	18.9
Neutral	11	20.8	20.8	39.6
Important	20	37.7	37.7	77.4
Very Important	12	22.6	22.6	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 20 (37.7%) consider this factor as important factor for availing the finance and 12 (22.6%) respondents consider this as very important factor, whereas 11 (20.8%) respondents are neutral about the statement. According to 7 (13.2%) respondents, it is less important and according to 3 (5.7%) respondents, it is not important factor for availing the bank finance. Figure 4.67 below presents the distribution of respondents on the basis of lack of marketing and branding.

Figure 4.67 Lack of Marketing and Branding as a Responsible Factor



Second question asked to the bankers is ‘Various schemes announced by the Government of India like Credit Guarantee Fund Trust for Micro and Small Enterprises (CGFTMS), have not performed well. According to you, which factors may responsible for this?’

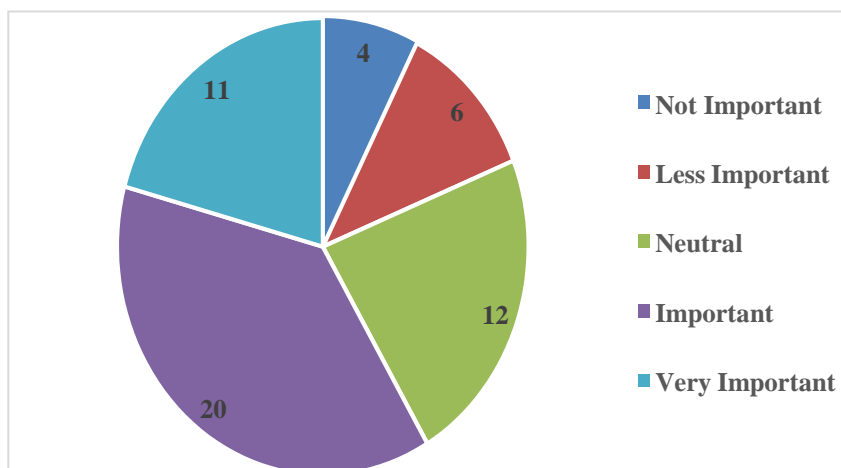
For this question, the first responsible factor asked the bankers is ‘Lack of awareness among the entrepreneurs’. Table 4.68 below shows the data collected for this factor.

Table 4.68 Lack of Awareness among the Entrepreneurs

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	4	7.5	7.5	7.5
Less Important	6	11.3	11.3	18.9
Neutral	12	22.6	22.6	41.5
Important	20	37.7	37.7	79.2
Very Important	11	20.8	20.8	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 20 (37.7%) consider awareness as important factor and 12 (22.6%) respondents are neutral. 11 (20.8%) respondents believe this factor as very important and 6 (11.3%) respondents believe it less important factor. According to 4 (7.5%) respondents, it is not important factor. Figure 4.68 below presents the distribution of bankers on this base.

Figure 4.68 Lack of Awareness among Entrepreneurs as a Responsible Factor



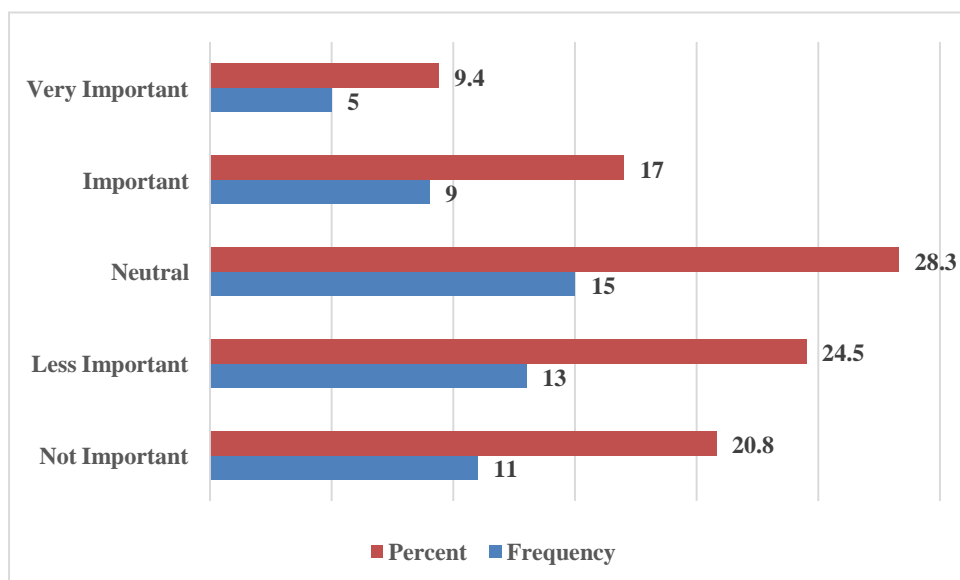
Second responsible factor asked to the bankers is ‘Lack of awareness among all branches of banks’. Table 4.69 below presents the data collected for this factor.

Table 4.69 Lack of Awareness among all Branches of Banks

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	11	20.8	20.8	20.8
Less Important	13	24.5	24.5	45.3
Neutral	15	28.3	28.3	73.6
Important	9	17	17	90.6
Very Important	5	9.4	9.4	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 15 (28.3%) are neutral about this statement. Whereas 13 (24.5%) respondents believe this factor as less important factor. According to 11 (20.8%) respondents, this factor is not important. Whereas 9 (17%) respondents believe this factor as important factor and remaining 5 (9.4%) respondents believe this factor as very important factor. Figure 4.69 below presents the distribution of bankers on the basis of lack of awareness among the bank branches.

Figure 4.69 Lack of Awareness among Bank Branches as a Responsible Factor



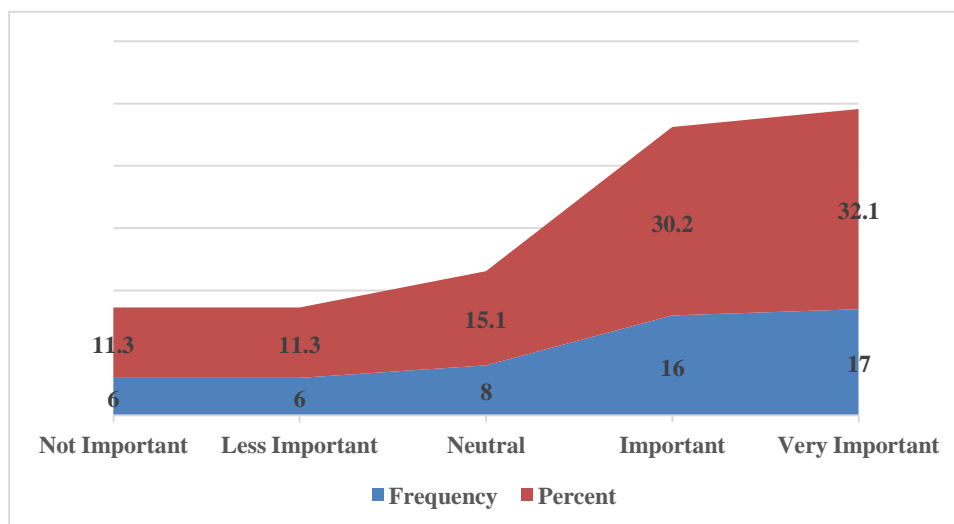
Third important factor asked to bankers as a responsible factor for financing gap in MSMEs is 'Limited branches availing services to MSMEs'. Following table 4.70 presents the details regarding this factor.

Table 4.70 Limited Branches as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	6	11.3	11.3	11.3
Less Important	6	11.3	11.3	22.6
Neutral	8	15.1	15.1	37.7
Important	16	30.2	30.2	67.9
Very Important	17	32.1	32.1	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the bankers 17 (32.1%) believe this factor as very important factor and 16 (30.2%) respondents believe this factor as important factor. 8 (15.1%) respondents are neutral about this statement, whereas 6 (11.3%) each respondents believe that this factor as less important and not important respectively. Following figure 4.70 presents the distribution of bankers on the basis of limited branches of banks as a responsible factor.

Figure 4.70 Limited Bank Branches as a Responsible Factor



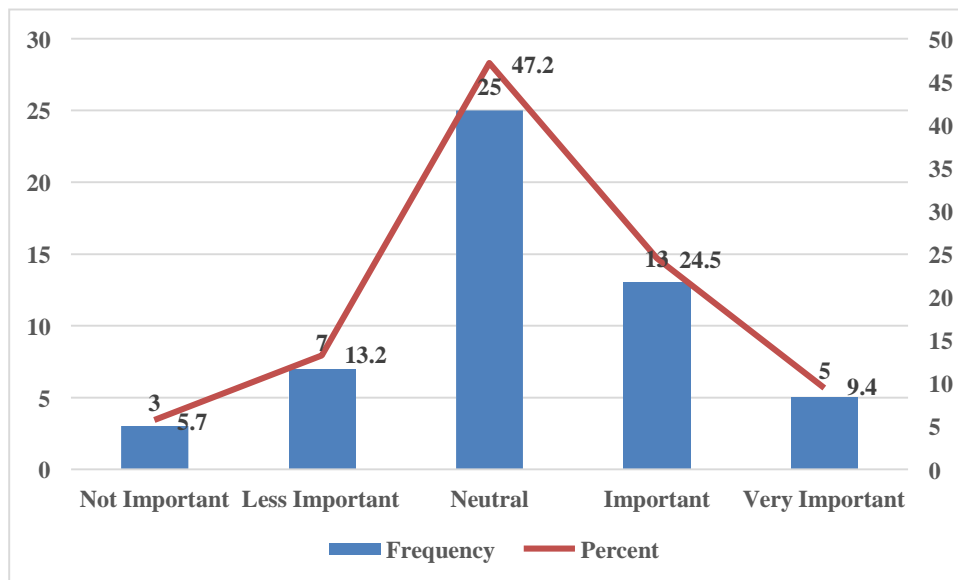
Next factor responsible for financing gap asked to entrepreneurs is ‘lengthy process of bank finance’. Following table 4.71 provides the details about this factor.

Table 4.71 Lengthy Process as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	3	5.7	5.7	5.7
Less Important	7	13.2	13.2	18.9
Neutral	25	47.2	47.2	66
Important	13	24.5	24.5	90.6
Very Important	5	9.4	9.4	100
Total	53	100	100	

As per the data analyzed in the above table, majority of the respondents 25 (47.2%) are neutral about this statement. Whereas 13 (24.5%) respondents believe this factor as an important factor. According to 7 (13.2%) respondents, it is less important factor. 5 (9.4%) respondents believe it as very important and 3 (5.7%) respondents believe it as not important. Following figure 4.71 presents the distribution of respondents on the basis of lengthy process as a responsible factor.

Figure 4.71 Lengthy Process as a Responsible Factor



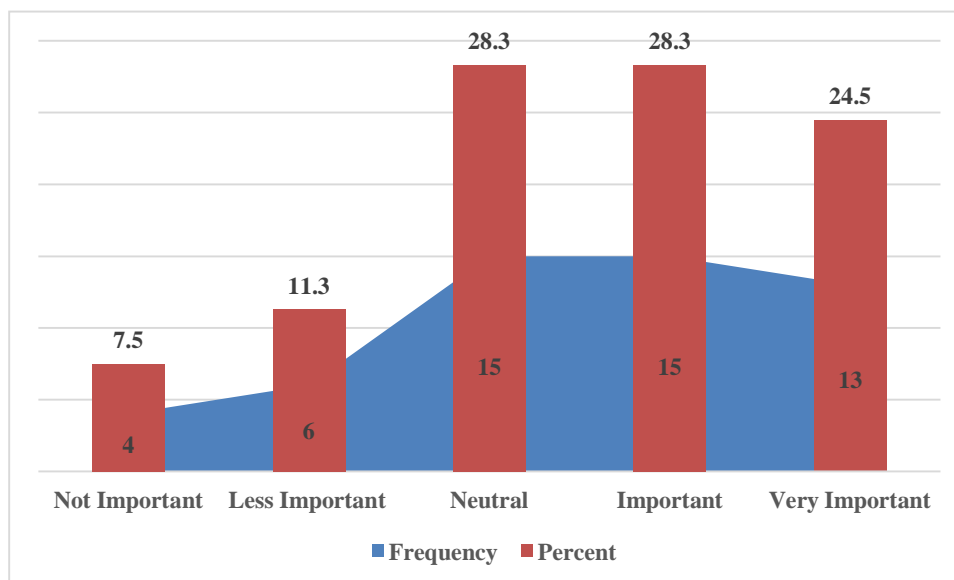
Next factor asked to bankers is ‘Less amount of finance’ as responsible factor for nonavailability of finance. Following table 4.72 presents the details about this statement.

Table 4.72 Less Amount of Finance as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	4	7.5	7.5	7.5
Less Important	6	11.3	11.3	18.9
Neutral	15	28.3	28.3	47.2
Important	15	28.3	28.3	75.5
Very Important	13	24.5	24.5	100
Total	53	100	100	

As per the data analyzed in the table above, 15 (28.3%) each respondents believe this factor as neutral and important respectively. Whereas 13 (24.5%) of respondents believe this factor as very important factor. According to 6 (11.3%) respondents, this factor is less important and according to 4 (7.5%) respondents, this factor is not important. Following figure 4.72 presents the distribution of bankers on the basis of less amount of finance as a responsible factor.

Figure 4.72 Less Amount of Finance as a Responsible Factor



Last statement asked to the bankers under this question is ‘Lack of sources in the banks’. Table 4. 73 below presents the details regarding this statement.

Table 4.73 Lack of Sources in Banks as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	3	5.7	5.7	5.7
Less Important	4	7.5	7.5	13.2
Neutral	15	28.3	28.3	41.5
Important	20	37.7	37.7	79.2
Very Important	11	20.8	20.8	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 20 (37.7%) consider this factor as important factor and 15 (28.3%) respondents are neutral about the statement. 11 (20.8%) respondents believe this factor as very important factor. According to 4 (7.5%) respondents it is less important and according to 3 (5.7%) respondents, it is not important factor. Figure 4.73 below presents the distribution of respondents on the basis of lack of sources in banks as a responsible factor.

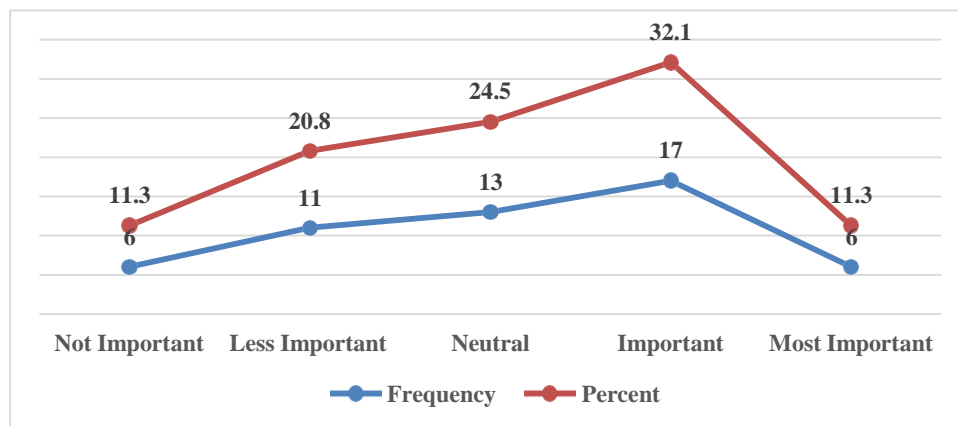
Third question asked to the bankers is ‘Up to which extent, following factors are responsible for rejection of bank loan of entrepreneurs?’ This question is very important question for this research. The first factor asked to respondents under this question is mismanagement and lack of governance system. Table 4.74 below presents the data regarding this factor.

Table 4.74 Mismanagement & Lack of Governance System as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	6	11.3	11.3	11.3
Less Important	11	20.8	20.8	32.1
Neutral	13	24.5	24.5	56.6
Important	17	32.1	32.1	88.7
Most Important	6	11.3	11.3	100
Total	53	100	100	

As per the data available in the table above, majority of the respondents 17 (32.1%) consider this factor as important whereas 13 (24.5%) are neutral. According to 11 (20.8%) respondents, it is less important and according to 6 (11.3%) respondents each, it is most important and not important respectively. Figure 4.74 below presents the distribution of respondents on the basis of mismanagement and lack of governance system as a responsible factor.

Figure 4.74 Mismanagement & Lack of Governance System as a Responsible factor



Second responsible factor asked to the bankers is ‘Lack of Mortgage/Collateral’. Table 4.75 below presents the data collected for this factor.

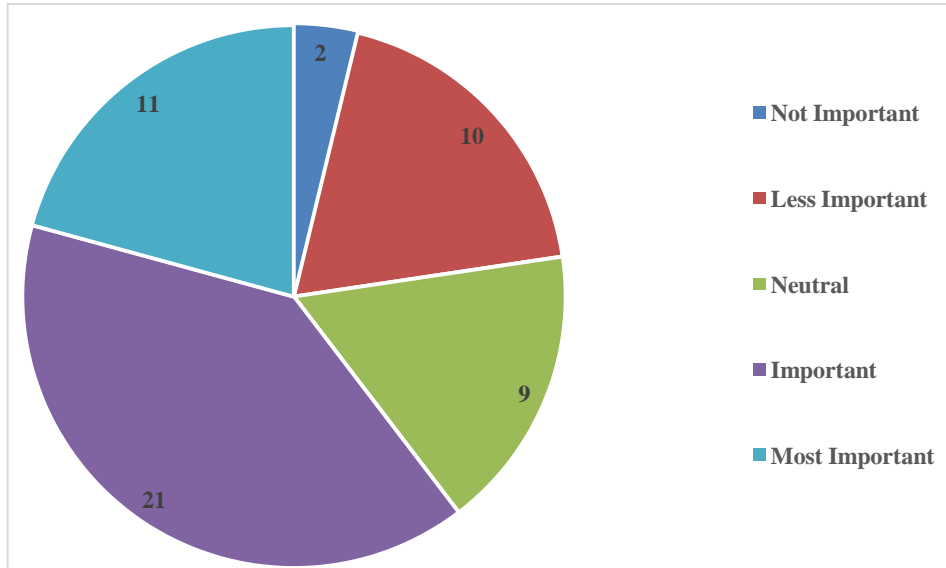
Table 4.75 Lack of Mortgage/Collateral as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	2	3.8	3.8	3.8
Less Important	10	18.9	18.9	22.6
Neutral	9	17	17	39.6
Important	21	39.6	39.6	79.2
Most Important	11	20.8	20.8	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 21 (39.6%) believe this factor as important factor and 11 (20.8%) respondents believe it as most important factor. Whereas 10 (18.9%) respondents believe this factor as less important factor and 9 (17%)

respondents are neutral about the statement. Remaining 2 (3.8%) respondents believe it as not important. Figure 4.75 below presents the distribution of bankers on the basis of lack of mortgage/collateral as a responsible factor.

Figure 4.75 Lack of Mortgage/Collateral as a Responsible Factor



Third factor asked to the bankers is lack of proper documents and financial accounts.

Table 4. 76 below present data regarding this factor.

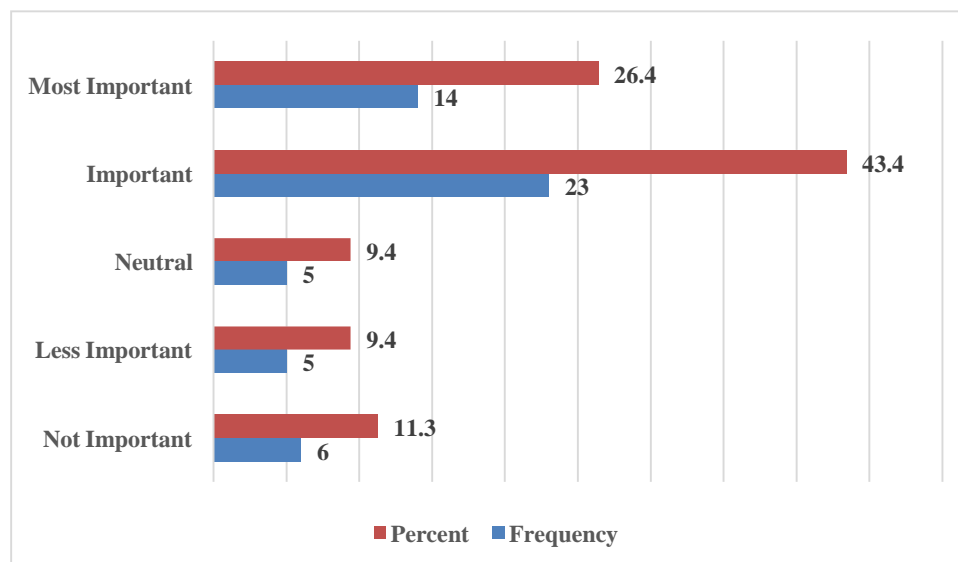
Table 4.76 Lack of Proper Documents and Financial Accounts

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	6	11.3	11.3	11.3
Less Important	5	9.4	9.4	20.8
Neutral	5	9.4	9.4	30.2
Important	23	43.4	43.4	73.6
Most Important	14	26.4	26.4	100
Total	53	100	100	

As per the data available in the table above, majority of the respondents 23 (43.4%) believe this factor as important factor and according to 14 (26.4%) respondents, this factor is most important for rejection of bank loan application. According to 6 (11.3%) respondents, this

factor is not important. 5 (9.4%) each respondents believe this factor as less important and neutral respectively. Following figure 4.76 presents the distribution of respondents on the basis of lack of proper documents and financial accounts.

Figure 4.76 Lack of Proper Documents and Financial Accounts



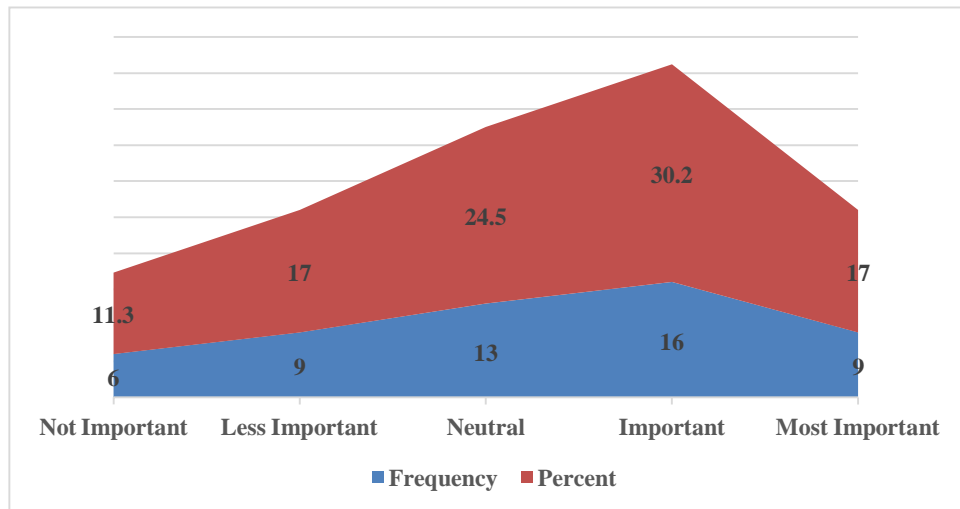
Fourth statement asked to the respondents is 'Issues related to Project Report'. Following table 4.77 presents the details regarding respondents on the basis of issues related to project report.

Table 4.77 Issues Related to Project Report

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	6	11.3	11.3	11.3
Less Important	9	17	17	28.3
Neutral	13	24.5	24.5	52.8
Important	16	30.2	30.2	83
Most Important	9	17	17	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 16 (30.2%) consider this factor as an important factor. Whereas 13 (24.5%) respondents are neutral about the statement. According to 9 (17%) each respondents, this factor is less important and most important respectively, and according to 6 (11.3%) respondents, this factor is not important. Following figure 4.77 presents the distribution of respondents on the basis of issues related to project report.

Figure 4.77 Issues related to Project Report as a Responsible Factor



Fifth factor asked to the bankers as a responsible factor is 'Education and Experience of Entrepreneurs'. Following table 4.78 presents the details of respondents regarding this factor.

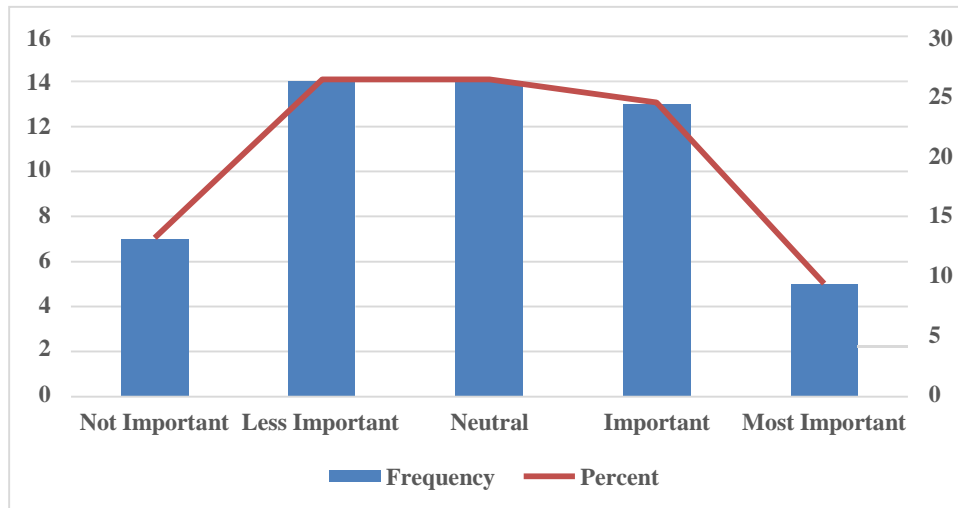
Table 4.78 Education and Experience of Entrepreneurs as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	7	13.2	13.2	13.2
Less Important	14	26.4	26.4	39.6
Neutral	14	26.4	26.4	66
Important	13	24.5	24.5	90.6
Most Important	5	9.4	9.4	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 14 (26.4%) each believe this factor as less important and neutral respectively. According to 13 (24.5%)

respondents, education and experience of entrepreneurs is important factor to avail the bank loan. 7 (13.2%) respondents believe this factor as not important factor and 5 (9.4%) respondents believe this factor as most important factor. Figure 4.78 below presents the distribution of respondents on the basis of education and experience of respondents.

Figure 4.78 Education and Experience of Entrepreneurs



Next factor asked to the bankers as a responsible factor is lack of seed capital. Table 4.79 below presents the data regarding the same.

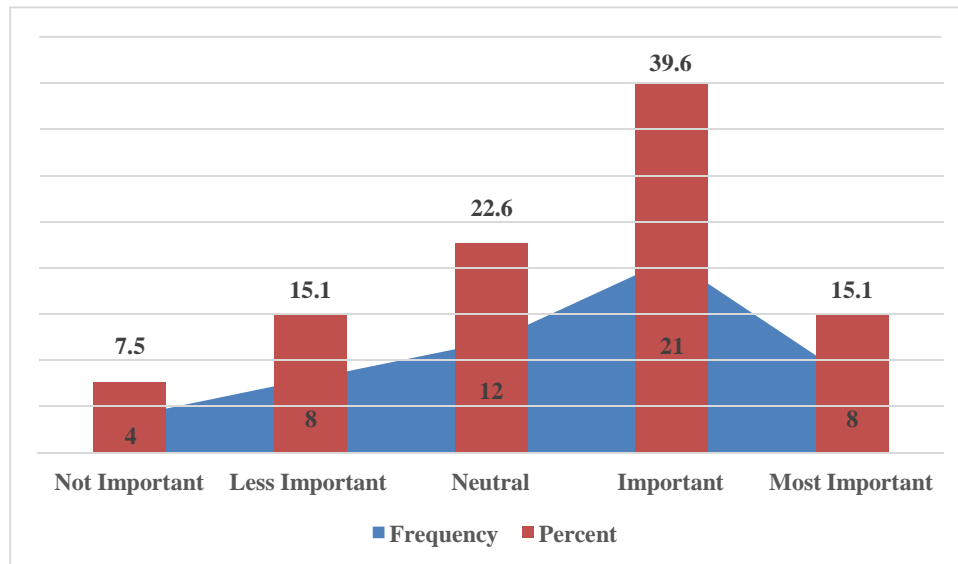
Table 4.79 Lack of Seed Capital

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	4	7.5	7.5	7.5
Less Important	8	15.1	15.1	22.6
Neutral	12	22.6	22.6	45.3
Important	21	39.6	39.6	84.9
Most Important	8	15.1	15.1	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 21 (39.6%) consider lack of seed capital as an important factor and 12 (22.6%) respondents are neutral about this factor. According to 8 (15.1%) each respondents, this factor is less important and most

important respectively and according to 4 (7.5%) respondents, this factor is not important. Figure 4.79 below presents the distribution of respondents on the basis of lack of seed capital.

Figure 4.79 Lack of Seed Capital as a Responsible Factor



Seventh factor asked to the bankers under this question is ‘Financial Stability of Entrepreneurs’. Table 4.80 below presents the data regarding the same.

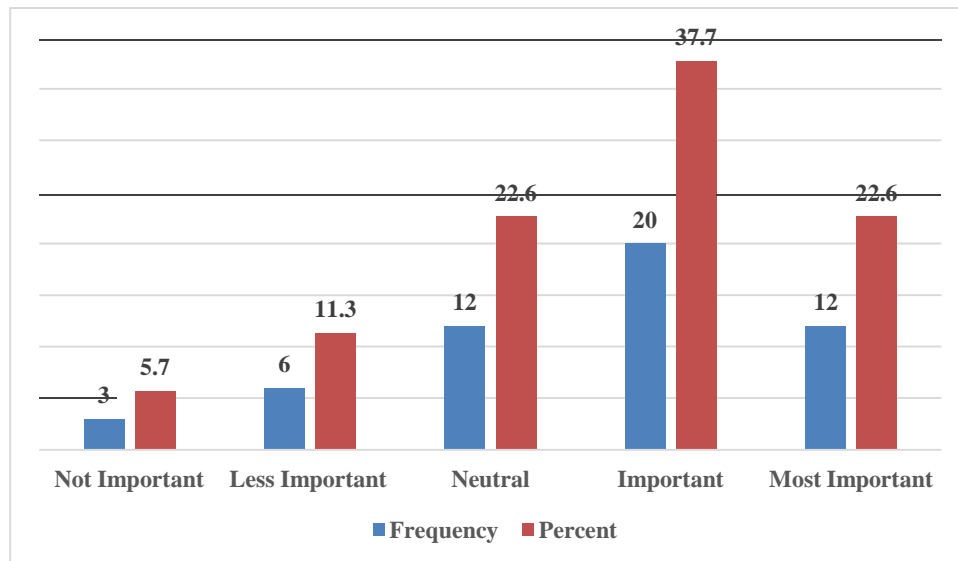
Table 4.80 Financial Stability of Entrepreneurs

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	3	5.7	5.7	5.7
Less Important	6	11.3	11.3	17
Neutral	12	22.6	22.6	39.6
Important	20	37.7	37.7	77.4
Most Important	12	22.6	22.6	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 20 (37.7%) believe this factor as important factor for availability of bank loan. According to 12 (22.6%) each

respondents, this factor is neutral and most important respectively. Whereas 6 (11.3%) respondents believe this factor as less important factor and 3 (5.7%) respondents believe it as not important factor. Figure 4.80 below presents the distribution of respondents on the basis of financial stability of entrepreneurs.

Figure 4.80 Financial Stability of Entrepreneurs



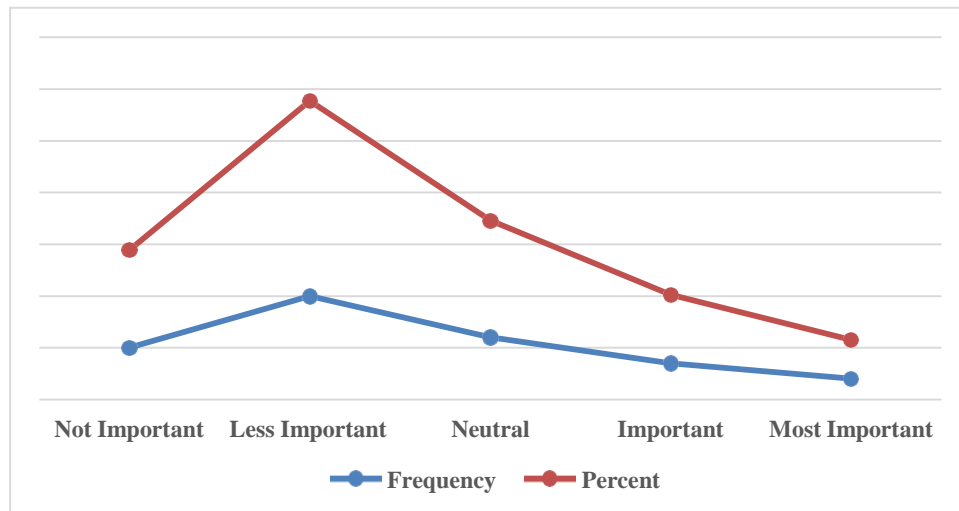
Next factor asked to bankers under this question is ‘Gender of Entrepreneurs’. Table 4.81 below presents the details regarding this factor.

Table 4.81 Gender of Entrepreneurs as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	10	18.9	18.9	18.9
Less Important	20	37.7	37.7	56.6
Neutral	12	22.6	22.6	79.2
Important	7	13.2	13.2	92.5
Most Important	4	7.5	7.5	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 20 (37.7%) believe this factor as less important and 12 (22.6%) respondents are neutral about the factor. According to 10 (18.9%) respondents, this factor is not important, whereas according to 7 (13.2%) respondents, this factor is important and as per the opinion of remaining respondents 4 (7.5%), this factor is most important. Figure 4.81 below presents the distribution of respondents on the basis of gender of entrepreneurs as a responsible factor.

Figure 4.81 Gender of Entrepreneurs as a Responsible Factor



Another factor asked to bankers under this question is ‘Type of Enterprise’. Following table 4.82 presents the details regarding this factor.

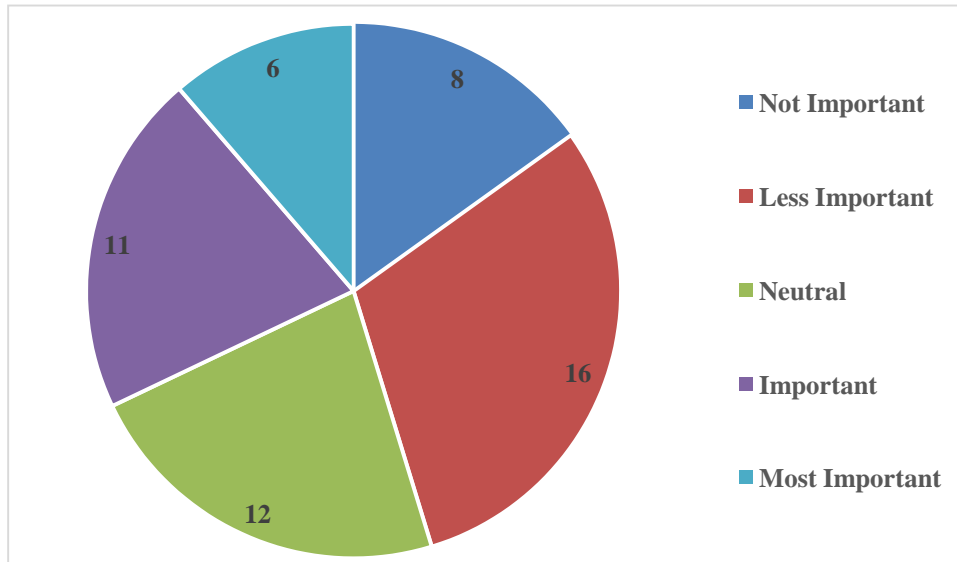
Table 4.82 Type of Enterprise as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	8	15.1	15.1	15.1
Less Important	16	30.2	30.2	45.3
Neutral	12	22.6	22.6	67.9
Important	11	20.8	20.8	88.7
Most Important	6	11.3	11.3	100
Total	53	100	100	

As per the data analyzed in the table above, most of the respondents 16 (30.2%) consider this factor as less important factor, whereas 12 (22.6%) respondents are neutral about the factor. According to 11 (20.8%) respondents, this factor is important and 8 (15.1%) respondents

believe this factor as not important factor. Remaining 6 (11.3%) respondents believe it as most important factor. Figure 4.82 below presents the distribution of respondents on the basis of type or enterprise.

Figure 4.82 Type of Enterprise as a Responsible Factor



Tenth factor asked to respondents under this question is ‘Sales/Turnover of Enterprise as a responsible factor. Table 4.83 below presents the details regarding this factor.

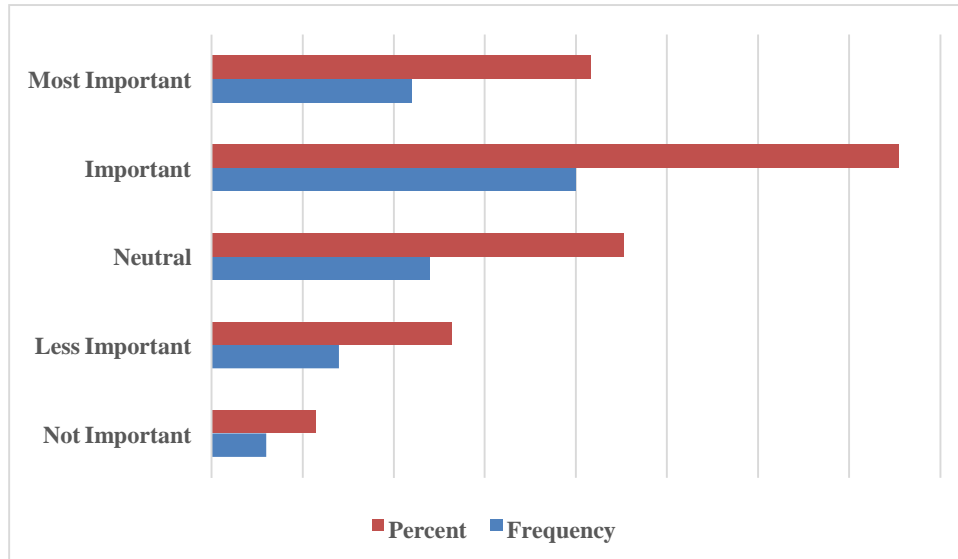
Table 4.83 Sales/Turnover of Enterprise as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	3	5.7	5.7	5.7
Less Important	7	13.2	13.2	18.9
Neutral	12	22.6	22.6	41.5
Important	20	37.7	37.7	79.2
Most Important	11	20.8	20.8	100
Total	53	100	100	

As per the data available in the table above, majority of the respondents 20 (37.7%) consider this factor as important factor and 12 (22.6%) respondents are neutral about the factor. 11 (20.8%) respondents believe this factor as most important factor whereas 7 (13.2%) respondents believe it as less important factor. Remaining 3 (5.7%) respondents believe this

factor as not important factor. Figure 4.83 below presents the distribution of respondents on the basis of sales/ turnover of enterprise as a responsible factor.

Figure 4.83 Sales/Turnover of Enterprise as a Responsible Factor



Another factor asked to the banker for this question is 'Market of Enterprise'. Table 4.84 below presents the details about this factor.

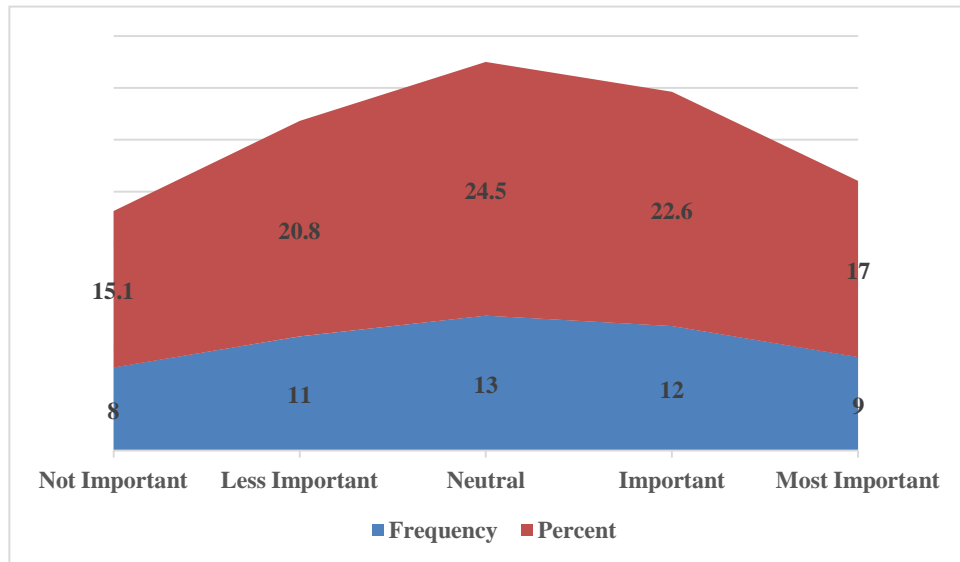
Table 4.84 Market of Enterprise as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	8	15.1	15.1	15.1
Less Important	11	20.8	20.8	35.8
Neutral	13	24.5	24.5	60.4
Important	12	22.6	22.6	83
Most Important	9	17	17	100
Total	53	100	100	

As per the data available from the table above, majority of the respondents 13 (24.5%) are neutral about this factor. According to 12 (22.6%) respondents, this factor is important and according to 11 (20.8%) respondents, this factor is less important. For 9 (17%) respondents, it is most important factor and for remaining 8 (15.1%) respondents, the factor is not important.

Figure 4.84 below presents the distribution of respondents on the basis of market of enterprise.

Table 4.84 Market of Enterprise as a Responsible Factor



Next factor asked to the bankers as a responsible factor is ‘Liquidity of Enterprise’. Following table 4.85 presents the details about this factor.

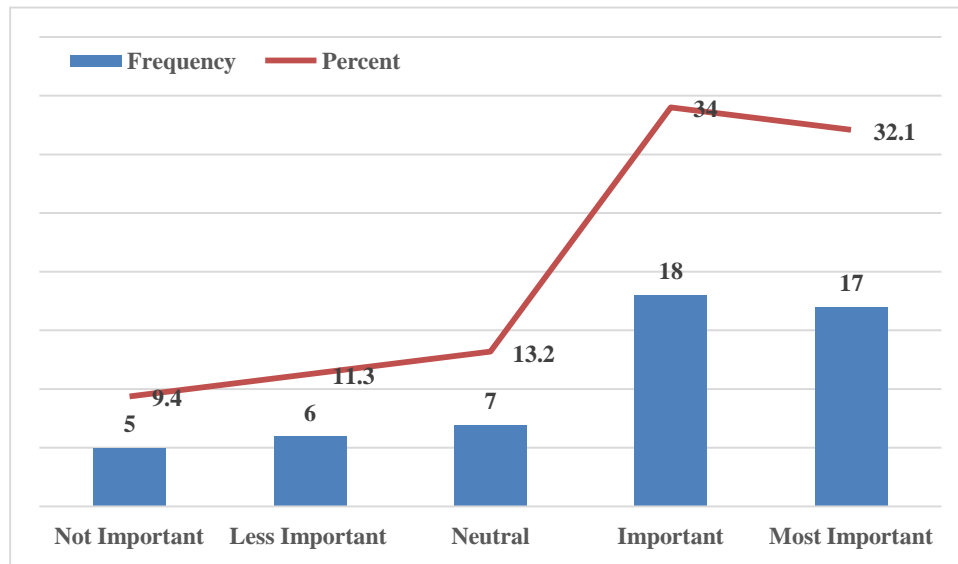
Table 4.85 Liquidity of Enterprise as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	5	9.4	9.4	9.4
Less Important	6	11.3	11.3	20.8
Neutral	7	13.2	13.2	34
Important	18	34	34	67.9
Most Important	17	32.1	32.1	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 18 (34%) consider this factor as important factor and according to 17 (32.1%) respondents, this factor is most important. Total 7 (13.2%) respondents are neutral about this question. According to 6

(11.3%) respondents, this factor is less important and as per 5 (9.4%) respondents, this factor is not important. Figure 4.85 below presents the distribution of respondents on the basis of liquidity of enterprise as a responsible factor.

Figure 4.85 Liquidity of Enterprise as a Responsible Factor



Next factor asked to bankers as responsible factor is ‘Product/Service produced by Enterprise’. Table 4.86 below presents the details regarding this factor.

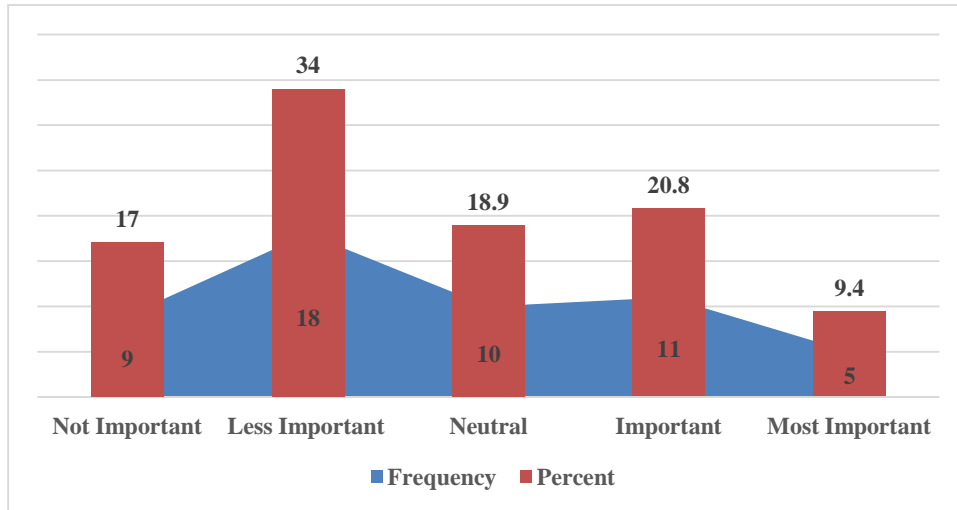
Table 4.86 Product/Service Produced by Enterprise as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	9	17	17	17
Less Important	18	34	34	50.9
Neutral	10	18.9	18.9	69.8
Important	11	20.8	20.8	90.6
Most Important	5	9.4	9.4	100
Total	53	100	100	

As per data analyzed in the table above, majority of the respondents 18 (34%) believe this factor as less important factor, whereas 11 (20.8%) respondents believe it as important factor. On the other hand 10 (18.9%) respondents are neutral about the factor and according to 9

(17%) respondents, this factor is not important. For remaining 5 (9.4%) respondents, this factor is most important factor. Figure 4.86 below presents the distribution of respondents on the basis of product/service produced by the enterprise as a responsible factor.

Table 4.86 Product/Service Produced by Enterprise as a Responsible Factor



Another factor asked to the bankers under this question is ‘total investment in enterprise’. Table 4.87 below presents the details of this factor.

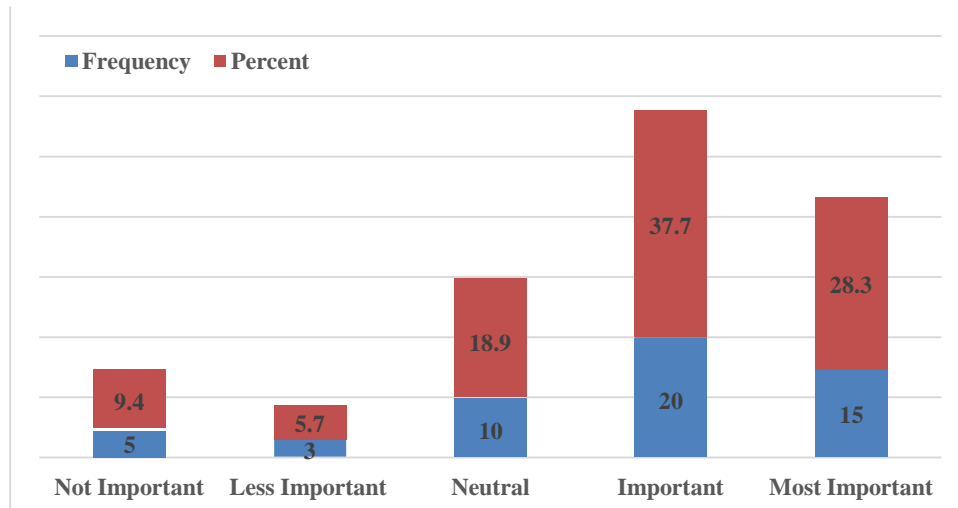
Table 4.87 Total Investment in Enterprise as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	5	9.4	9.4	9.4
Less Important	3	5.7	5.7	15.1
Neutral	10	18.9	18.9	34
Important	20	37.7	37.7	71.7
Most Important	15	28.3	28.3	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 20 (37.7%) believe this factor as important factor and according to 15 (28.3%) respondents, it is most important factor. Whereas 10 (18.9%) respondents are neutral about this factor. On the other hand 5 (9.4%) respondents believe this factor as not important factor and according to 3 (5.7%)

respondents, it is less important factor. Figure 4.87 below presents the distribution of respondents on the basis of total investment in enterprise as a responsible factor.

Figure 4.87 Total Investment in Enterprise as a Responsible Factor



Last factor asked to bankers under this question is ‘Other Borrowings of Enterprise’. Table 4.88 below presents the details regarding this factor.

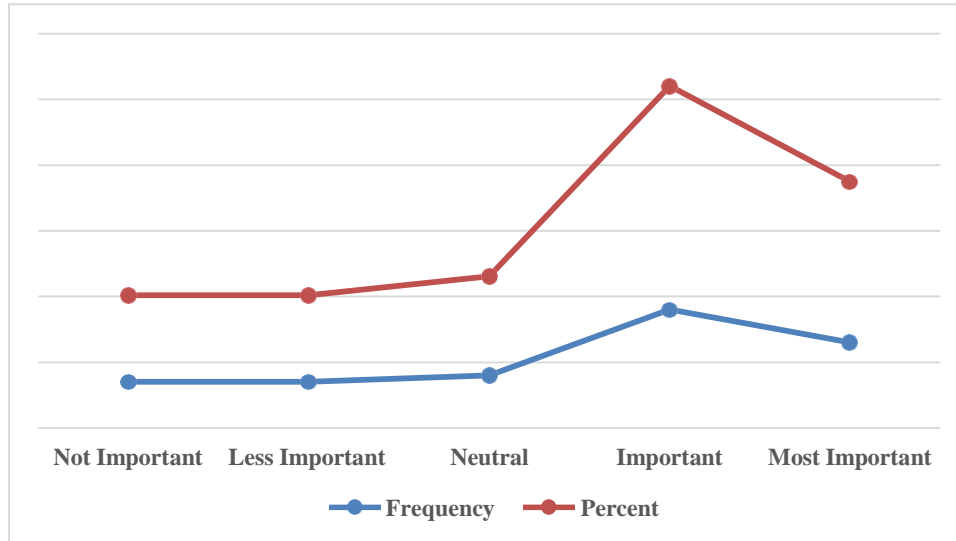
Table 4.88 Other Borrowings of Enterprise as a Responsible Factor

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	7	13.2	13.2	13.2
Less Important	7	13.2	13.2	26.4
Neutral	8	15.1	15.1	41.5
Important	18	34	34	75.5
Most Important	13	24.5	24.5	100
Total	53	100	100	

As per the details analyzed in the table above, most of the respondents 18 (34%) believe this factor as important factor and according to 13 (24.5%) respondents, this factor is most important. 8 (15.1%) respondents are neutral about this factor. On the other hand 7 (13.2%) each respondents believe that this factor as less important and not important respectively.

Figure 4.88 below presents the distribution of respondents on the basis of other borrowings of enterprise as a responsible factor.

Figure 4.88 Other Borrowings of Enterprise as a Responsible Factor



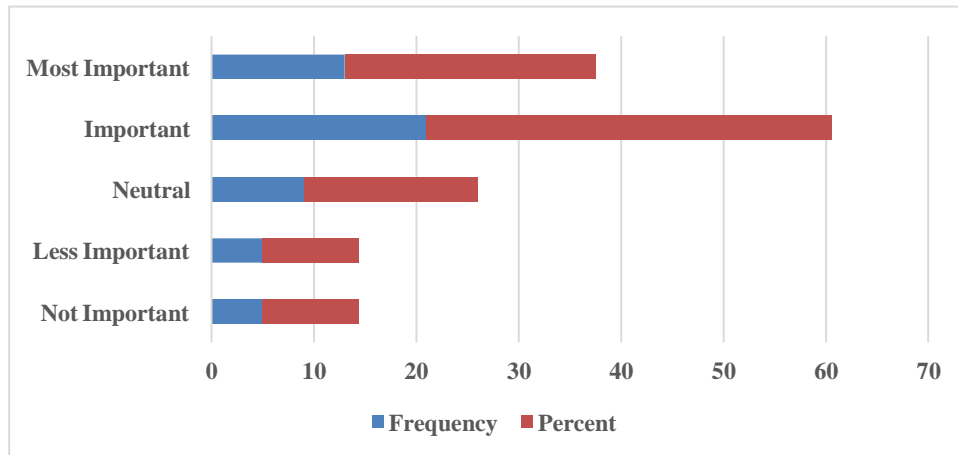
Last question asked to bankers is ‘According to you, which of the following factors may be helpful to entrepreneurs to resolve issue of financing gap? And up to which extent?’ Under this question, total five factors have been considered. The first factor asked to the bankers is ‘Remedial Centres for Entrepreneurs’. Table 4.89 below presents the details regarding this factor. **Table 4.89 Remedial Centres for Entrepreneurs**

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	5	9.4	9.4	9.4
Less Important	5	9.4	9.4	18.9
Neutral	9	17	17	35.8
Important	21	39.6	39.6	75.5
Most Important	13	24.5	24.5	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 21 (39.6%) consider this factor as most important factor and 13 (24.5%) respondents believe as important. 9 (17%) respondents are neutral about the factor whereas 5 (9.4%) each respondents believe it less

important and not important respectively. Figure 4.89 below presents the distribution of respondents on the basis of remedial centers for entrepreneurs.

Figure 4.89 Remedial Centers for Entrepreneurs



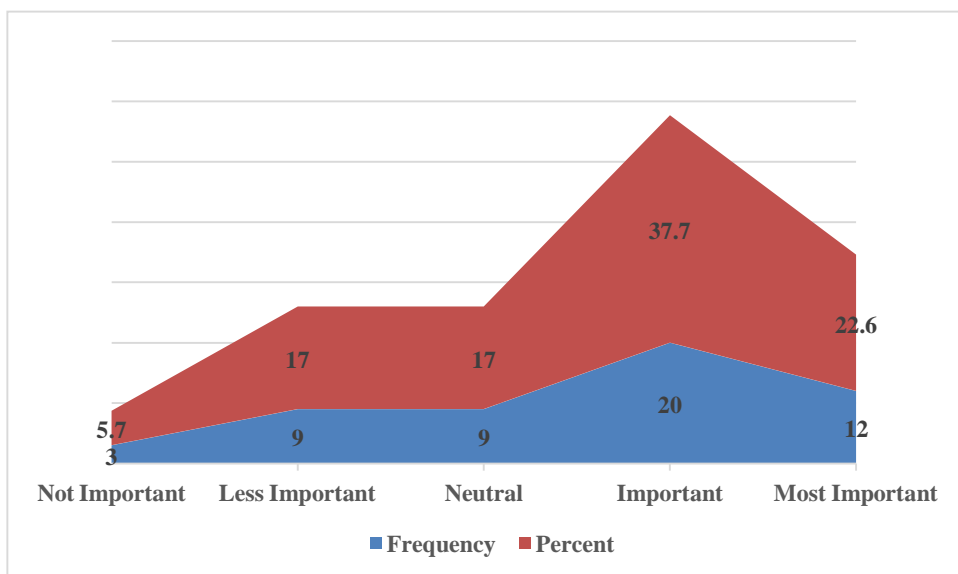
Second factor asked to bankers for smoothing financing gap is ‘Smooth and Fast Process of Financing’. Table 4.90 below presents the details regarding this factor.

Table 4.90 Smooth and Fast Process of Financing

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	3	5.7	5.7	5.7
Less Important	9	17	17	22.6
Neutral	9	17	17	39.6
Important	20	37.7	37.7	77.4
Most Important	12	22.6	22.6	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 20 (37.7%) believe this factor as important and 12 (22.6%) respondents believe as most important. 9 (17%) respondents each believe this factor neutral and less important respectively. On the other hand, according to 3 (5.7%) respondents this factor is not important. Figure 4.90 below presents the distribution of respondents on the basis of smooth and fast process of financing.

Figure 4.90 Smooth and Fast Process of Financing



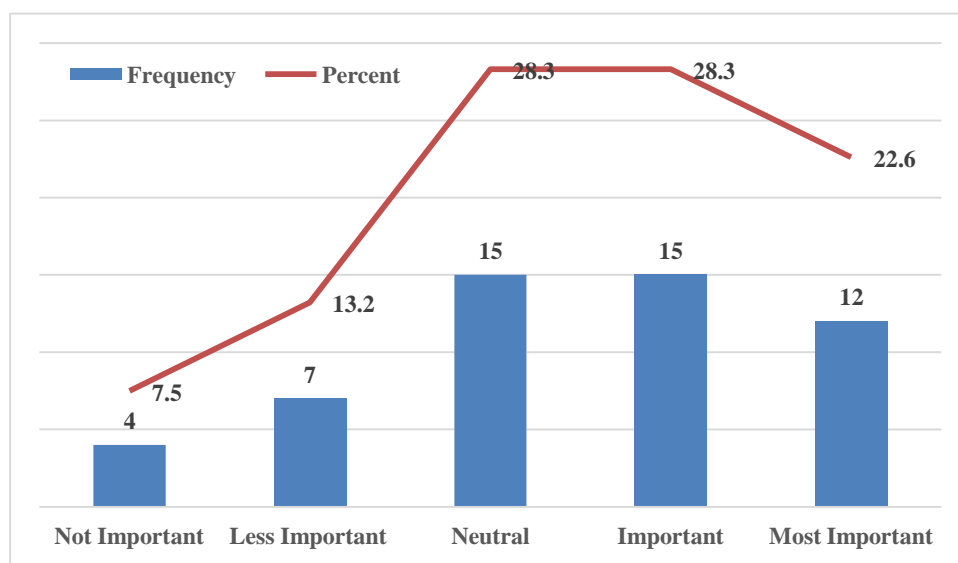
Third important factor asked to the respondents is ‘Minimum Processing fee/Cost’. Table 4.91 below presents the details regarding this factor.

Table 4.91 Minimum Processing Fee/Cost

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	4	7.5	7.5	7.5
Less Important	7	13.2	13.2	20.8
Neutral	15	28.3	28.3	49.1
Important	15	28.3	28.3	77.4
Most Important	12	22.6	22.6	100
Total	53	100	100	

As per the data analyzed in the table above, most of the respondents 15 (28.3%) each believe this factor as neutral and important respectively. According to 12 (22.6%) respondents, this factor is most important whereas according to 7 (13.2%) respondents, it is less important and according to 4 (7.5%) respondents it is not important factor. Figure 4.91 presents the distribution of respondents on the basis of minimum processing fee/cost.

Figure 4.91 Minimum Processing Fee/Cost

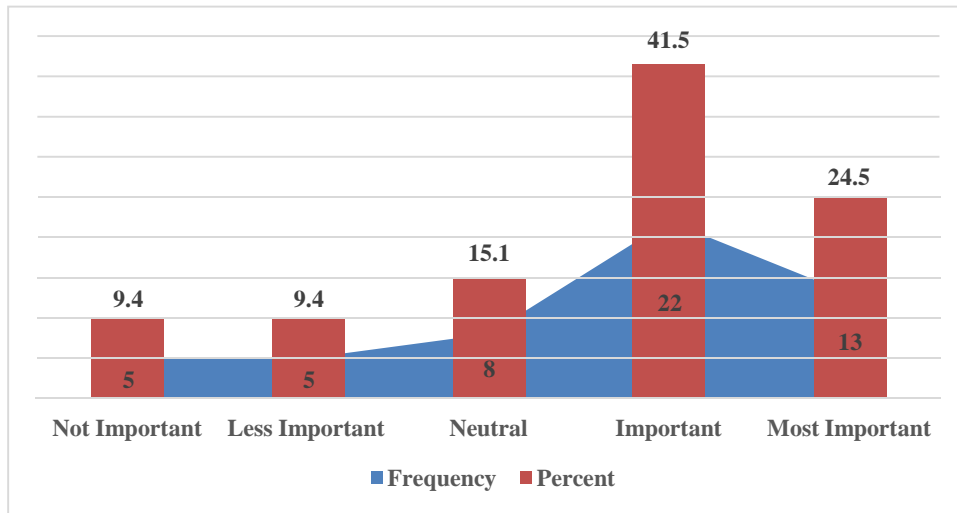


Fourth factor asked to the respondents is ‘Varieties in Finance’ means the finance should be available as per the requirement of entrepreneurs. Table 4.92 presents the details regarding this factor as under. **Table 4.92 Varieties in Finance**

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	5	9.4	9.4	9.4
Less Important	5	9.4	9.4	18.9
Neutral	8	15.1	15.1	34
Important	22	41.5	41.5	75.5
Most Important	13	24.5	24.5	100
Total	53	100	100	

As per the data analyzed in the table above, most of the respondents 22 (41.5%) believe this factor as important and 13 (24.5%) respondents believe this factor as most important factor. Whereas 8 (15.1%) respondents are neutral about the factor and 5 (9.4%) respondents each believe this factor as less important and not important respectively. Figure 4.92 below presents the distribution of respondents on the basis of varieties in finance.

Figure 4.92 Varieties in Finance



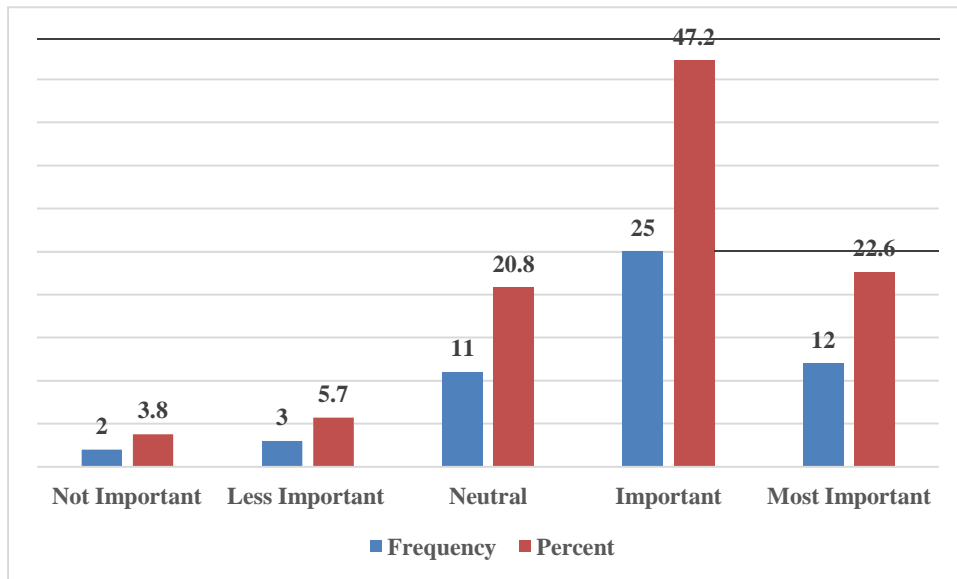
Last factor under this question asked to the respondents is ‘well trained and separate staff in all branches’. Table 4.93 below presents the details regarding this factor.

Table 4.

Opinion	Frequency	Percent	Valid Percent	Cumulative Percent
Not Important	2	3.8	3.8	3.8
Less Important	3	5.7	5.7	9.4
Neutral	11	20.8	20.8	30.2
Important	25	47.2	47.2	77.4
Most Important	12	22.6	22.6	100
Total	53	100	100	

As per the data analyzed in the table above, majority of the respondents 25 (47.2%) believe this factor as important factor and according to 12 (22.6%) respondents, this factor is most important. 11 (20.8%) respondents are neutral about the factor and 3 (5.7%) respondents believe this factor as less important. According to 2 (3.8%) respondents, this factor is not important. Figure 4. 93 below presents the distribution of respondents on the basis of well trained and separate staff.

Figure 4.93 Well Trained and Separate Staff in All Branches



4.4 Analysis of Data:

After gathering the information from selected entrepreneurs and bankers, researcher has analyzed the data as per requirement for further process of testing of hypothesis. For that purpose, descriptive statistics for variables is calculated for variables of entrepreneurs and for variables of bankers (for both questionnaire separately).

4.4.1 Descriptive Statistics of Variables for Entrepreneurs:

Table 4.94 below presents the descriptive statistics for variables selected for the test. Table presents the descriptive statistics like N, Range, Minimum, Maximum, Mean, Standard Deviation and variance for total 82 variance used for testing of hypothesis.

Table 4.94 Descriptive Statistics for Selected Variables for Entrepreneurs

Variables	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
City of Enterprise	515	5	1	6	1.9243	1.49971	2.249
Related Cluster	515	8	1	9	5.0175	2.38463	5.686
Management of Enterprise	515	4	1	5	2.5417	1.11398	1.241
Annual Turnover	515	400000000	120,000	400000000	10,700,071.84	31,989,731.71	1023000000000000
Age of Organization	515	59	1	60	12.9223	8.71165	75.893
Gender of Respondent	515	1	1	2	1.1107	0.31404	0.099
Age of Respondent	515	55	21	76	43.2621	10.28784	105.84

Experience of Respondent	515	55	1	56	23.2621	10.28784	105.84
Educational Qualification	515	5	1	6	2.6117	1.08611	1.18

Accounts in how many banks	515	5	1	6	2.9709	1.12156	1.258
Service Quality of Bank	515	4	1	5	2.901	0.96832	0.938
HR Quality of Bank	515	3	1	4	2.8039	0.94929	0.901
Type of Enterprise	515	2	1	3	2.1515	0.72502	0.526
Proportion of Borrowing in Capital	515	85	10	95	66.2816	14.38142	206.825
Proportion of Bank Loan in Borrowing	515	80	10	90	53.324	17.3973	302.667
Personal Contacts	515	1	0	1	0.532	0.49946	0.249
Trade Associations	515	1	0	1	0.3767	0.48503	0.235
Govt. Website or Advt.	515	1	0	1	0.1592	0.36624	0.134
News Paper/Magazine etc.	515	1	0	1	0.4136	0.49296	0.243
Financial Consultant	515	1	0	1	0.0699	0.25523	0.065
Other Ways	515	1	0	1	0.2019	0.40184	0.161
Bank Loan as Major Source	515	2	0	2	1.1301	0.7305	0.534

Bank Overdraft/CC	515	1	0	1	0.4155	0.49329	0.243
Govt. Grant/Subsidy	515	1	0	1	0.0932	0.291	0.085
Lease/Hire Purchase/ Factoring	515	1	0	1	0.1301	0.33674	0.113
Mortgage	515	1	0	1	0.1184	0.32345	0.105
Private Equity/Vent. Cap	515	1	0	1	0.0602	0.23808	0.057

Friends/Relatives	515	1	0	1	0.8621	0.34509	0.119
Other Enterprise	515	1	0	1	0.1437	0.35112	0.123
NBFCs	515	1	0	1	0.6136	0.4874	0.238
Other Sources than above	515	1	0	1	0.1612	0.36804	0.135
Training	66	0	1	1	1	0	0
Working Capital	354	0	1	1	1	0	0
Plant/Machinery	138	0	1	1	1	0	0
Land/Building	64	0	1	1	1	0	0
Renovation	83	0	1	1	1	0	0
Research & Development	120	0	1	1	1	0	0
Buy the new business	111	0	1	1	1	0	0

Marketing/Advertisement	98	0	1	1	1	0	0
Other purpose	106	0	1	1	1	0	0
Availability of Bank Loan	515	2	1	3	1.3825	0.63252	0.4
Duration of Loan Process	515	7	1	8	4.235	1.77891	3.165
Opinion about Interest Rate	515	3	1	4	2.5379	0.84154	0.708
Usefulness of Bank loan	515	4	1	5	3.1184	0.71365	0.509
Problems in getting bank loan	515	3	1	4	2.5495	0.85243	0.727
Problem faced at which stage of application	515	4	1	5	3.6078	1.17759	1.387

Past Experience	515	4	1	5	2.8563	1.12226	1.259
Motivation from Bank	515	4	1	5	3.9553	1.19334	1.424
Liquidity Problem	515	4	1	5	3.8311	0.98065	0.962
Insufficient Documents	515	4	1	5	3.5476	1.17826	1.388
Lack of Fin Stat	515	4	1	5	2.9728	1.15326	1.33
Lack of Mort	515	4	1	5	3.1282	1.20112	1.443
Heavy Debt Level	515	4	1	5	3.235	1.26811	1.608

High Rate of Interest	515	4	1	5	2.9146	1.04215	1.086
High Process Rate	515	4	1	5	2.8757	1.11938	1.253
High Process Time	515	4	1	5	3.4932	1.14233	1.305
Change in Plan	515	4	1	5	2.8583	1.18736	1.41
Other Sources	515	4	1	5	3.0757	1.25692	1.58
Lower Credit Rating	515	4	1	5	2.9184	1.19057	1.417
High Amount of Loan	515	4	1	5	2.7961	1.1566	1.338
Financial Condition	515	4	1	5	3.2369	1.13582	1.29
Productivity	515	4	1	5	3.1631	1.21141	1.468
Future Plans	515	4	1	5	3.4738	1.20343	1.448
Working Capital	515	4	1	5	3.7417	1.02749	1.056
Sales	515	4	1	5	2.8718	1.17492	1.38
Research & Development	515	4	1	5	2.8699	1.16723	1.362
Human Resource	515	4	1	5	2.7689	1.15316	1.33

Various Options	515	4	1	5	3.0311	1.10667	1.225
Proper Option	515	4	1	5	2.8893	1.09001	1.188
Problems bf three years	515	4	1	5	2.8738	1.09188	1.192
Future Preparation	515	4	1	5	2.8466	1.15769	1.34

Key Points	515	4	1	5	2.866	1.10337	1.217
Help for future loan	515	4	1	5	2.8485	1.1247	1.265
Bank loan availability	515	4	1	5	3.0136	1.16274	1.352
Affectivity of Bank Loan	515	4	1	5	2.835	1.10796	1.228
Easily availability of bank loan	515	4	1	5	2.8796	1.08808	1.184
Less Interest Rate	515	4	1	5	2.9903	1.17111	1.372
Easy Process	515	4	1	5	2.8777	1.09943	1.209
Relation	515	4	1	5	2.9592	1.15201	1.327
More experience	515	4	1	5	2.8893	1.09535	1.2
Large Enterprise	515	4	1	5	2.9825	1.15933	1.344
Harassment by banks	515	4	1	5	3.0117	1.10704	1.226

4.4.2 Descriptive Statistics of Variables for Bankers [Questionnaire II]:

Table 4.95 below presents the descriptive statistics for variables selected for the test. Table presents the descriptive statistics like N, Range, Minimum, Maximum, Mean, Standard Deviation and variance for total 33 variance used for testing of hypothesis.

Table 4.95 Descriptive Statistics for Selected Variables for Bankers

Variables	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
Type of Bank	53	2	1	3	1.5849	0.74509	0.555
Increase in NPA	53	4	1	5	3.6792	1.07011	1.145
Credit Rating	53	4	1	5	3.0943	1.00507	1.01
Transaction Cost	53	4	1	5	2.8302	1.2517	1.567
First Generation	53	4	1	5	2.8491	1.13334	1.284
Infrastructural Facilities	53	4	1	5	2.9434	1.1505	1.324
Marketing Branding	53	4	1	5	3.5849	1.15082	1.324
Lack of Awareness	53	4	1	5	3.5283	1.1702	1.369
Branches not aware	53	4	1	5	2.6981	1.24938	1.561
Limited Branches	53	4	1	5	3.6038	1.34935	1.821
Lengthy Process	53	4	1	5	3.1887	0.98169	0.964
Less Amount	53	4	1	5	3.5094	1.20292	1.447
Lack of Information	53	4	1	5	3.6038	1.08024	1.167

Management Issues	53	4	1	5	3.1132	1.20353	1.448
Mortgage/Collateral	53	4	1	5	3.5472	1.13622	1.291
Documents	53	4	1	5	3.6415	1.28743	1.657
Project Report	53	4	1	5	3.2453	1.25431	1.573
Experience and Qualification	53	4	1	5	2.9057	1.19718	1.433
Less Equity/ Seed Capital	53	4	1	5	3.3962	1.14924	1.321
Liquidity	53	4	1	5	3.6038	1.13238	1.282
Gender	53	4	1	5	2.5283	1.1702	1.369
Type of Enterprise	53	4	1	5	2.8302	1.2517	1.567
Turnover/Sales	53	4	1	5	3.5472	1.13622	1.291
Market	53	4	1	5	3.0566	1.32164	1.747
Financial Condition	53	4	1	5	3.6792	1.29754	1.684
Product Service	53	4	1	5	2.717	1.24618	1.553
Total Investment	53	4	1	5	3.6981	1.21821	1.484
Other Borrowings	53	4	1	5	3.434	1.35177	1.827
Remedial Centers	53	4	1	5	3.6038	1.23007	1.513
Smooth and Easy Process	53	4	1	5	3.5472	1.18591	1.406
Minimum Cost	53	4	1	5	3.4528	1.20202	1.445
As per requirement	53	4	1	5	3.6226	1.22829	1.509

Trained & Separate Staff	53	4	1	5	3.7925	0.98759	0.975
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4.5 Testing of Hypothesis:

After calculating the descriptive statistics for the selected variables of both questionnaire, researcher has tested the formed hypothesis by using nonparametric statistical test Chi Square. Researcher has formed total eight hypothesis which are equally divided in two groups i.e. from the perspective of entrepreneurs (demand side hypothesis) and from the perspective of bankers (supply side hypothesis). All hypothesis are tested with the help of SPSS. Testing of hypothesis is as under:

4.5.1 From the perspective of Entrepreneurs (Demand Side Hypothesis):

From the perspective of entrepreneurs, there are total four hypotheses formed. For the ease of calculation, researcher has divided each hypotheses in sub parts. Testing of demand side hypothesis is as under:

4.5.1.1 Testing of First Hypothesis:

H1: Type, management, turnover and age of enterprise and availability of bank finance are not related significantly.

The result of testing of hypothesis one are tested in four parts as under

Part One: Availability of Bank Finance and Type of Enterprise:

Table 4.96 below presents the case processing summary for first part of hypothesis one

Table 4.96 Case Processing Summary for First Part of Hypothesis One

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Type of Enterprise *						
Availability of Finance	515	100.0%	0	.0%	515	100.0%

Table 4.97 below presents the cross-tabulation for selected variables

Table 4.97 Cross Tabulation for selected Variables

Count		Availability of Finance			Total
		Difficult	Average	Easy	
Type of Enterprise	Micro	83	10	9	102
	Small	92	86	55	233
	Medium	134	10	36	180
Total		309	106	100	515

After cross tabulation of selected variables, table 4.98 below presents the Chi Square Test applied in hypothesis

Table 4.98 Testing of First Part of Hypothesis One

Results	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	94.083 ^a	4	.000
Likelihood Ratio	100.240	4	.000
Linear-by-Linear Association	.344	1	.558
N of Valid Cases	515		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 19.81.

From the above testing, it is proved that very strong evidence against the null hypothesis is available. So alternative hypothesis is accepted.

There is a significant difference between the availability of bank loan and type of enterprise.

Part Two: Availability of Bank Finance and Nature of Management:

Table 4.99 below presents the case processing summary for second part of hypothesis one

Table 4.99 Case Processing Summary for Second Part of Hypothesis One

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Management of Enterprise * Availability of Finance	515	100.0%	0	.0%	515	100.0%

Table 4.100 below presents the cross-tabulation for selected variables

Table 4.100 Cross Tabulation for selected Variables

Count		Availability of Finance			Total
		Difficult	Average	Easy	
Management of Enterprise	Sole Proprietor	71	22	14	107
	Partnership	88	30	30	148
	Hindu Undivided Family	84	31	41	156
	Private Company	51	19	12	82
	Other	15	4	3	22
Total		309	106	100	515

After cross tabulation of selected variables, table 4.101 below presents the Chi Square Test applied in hypothesis **Table 4.101 Testing of Second Part of Hypothesis One**

Results	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.794 ^a	8	.280
Likelihood Ratio	9.829	8	.277
Linear-by-Linear Association	.435	1	.510
N of Valid Cases	515		

a. 2 cells (13.3%) have expected count less than 5. The minimum expected count is 4.27.

Little or no real evidences against the null hypothesis. So Null Hypothesis failed to reject. There is no significant difference between the availability of bank loan and type of management.

Part Three: Availability of Bank Finance and Turnover of Enterprise:

Table 4.102 below presents the case processing summary for third part of hypothesis one

Table 4.102 Case Processing Summary for Third Part of Hypothesis One

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Categorized Turnover *						
Availability of Finance	515	100.0%	0	.0%	515	100.0%

Table 4.103 below presents the cross-tabulation for selected variables

Table 4.103 Cross Tabulation for selected Variables

Count		Availability of Finance			Total
		Difficult	Average	Easy	
Categorized Turnover	Up to 2500000	128	51	33	212
	2500001 to 5000000	42	44	30	116
	5000001 to 7500000	45	2	12	59
	7500001 to 10000000	39	2	9	50
	10000001 to 100000000	46	7	16	69
	Above 100000000	9	0	0	9
Total		309	106	100	515

After cross tabulation of selected variables, table 4.104 below presents the Chi Square Test applied in hypothesis.

Table 4.104 Testing of Third Part of Hypothesis One

Results	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	64.458 ^a	10	.000
Likelihood Ratio	74.191	10	.000
N of Valid Cases	515		

a. 2 cells (11.1%) have expected count less than 5. The minimum expected count is 1.75.

Very strong evidence against the null hypothesis. So alternative hypothesis selected. There is a significant difference between the availability of bank loan and turnover of the business.

Part Four: Availability of Bank Finance and Age of Enterprise:

Table 4.105 below presents the case processing summary for fourth part of hypothesis one

Table 4.105 Case Processing Summary for Fourth Part of Hypothesis One

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Cate Age of Enterprise *						
Availability of Finance	515	100.0%	0	.0%	515	100.0%

Table 4.106 below presents the cross-tabulation for selected variables

Table 4.106 Cross Tabulation for selected Variables

Count		Availability of Finance			Total
		Difficult	Average	Easy	
Categorized	Up to 5 years	54	30	10	94

Age of Enterprise	6 to 15 years	176	56	52	284
	16 to 25 years	58	15	29	102
	26 to 35 years	15	5	6	26
	36 to 45 years	6	0	2	8
	Above 45 years	0	0	1	1
Total		309	106	100	515

After cross tabulation of selected variables, table 4.107 below presents the Chi Square Test applied in hypothesis.

Table 4.107 Testing of Fourth Part of Hypothesis One

Results	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.762 ^a	10	.012
Likelihood Ratio	23.040	10	.011
Linear-by-Linear Association	2.596	1	.107
N of Valid Cases	515		

a. 6 cells (33.3%) have expected count less than 5. The minimum expected count is .19.

Moderate evidence against the null hypothesis. So alternative hypothesis likely to be accepted.

There is a significant difference between the availability of bank loan and age of the business.

4.5.1.2 Testing of Second Hypothesis:

H1: Gender, educational qualification and experience of entrepreneurs and availability of bank finance are not related significantly.

The result of testing of hypothesis one are tested in three parts as under

Part One: Availability of Bank Finance and Gender of Entrepreneur:

Table 4.108 below presents the case processing summary for first part of hypothesis two

Table 4.108 Case Processing Summary for First Part of Hypothesis Two

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Gender of Respondent * Availability of Finance	515	100.0%	0	.0%	515	100.0%

Table 4.109 below presents the cross-tabulation for selected variables

Table 4.109 Cross Tabulation for selected Variables

		Availability of Finance			Total
		Difficult	Average	Easy	
Gender of Respondent	Male	275	92	91	458
	Female	34	14	9	57
Total		309	106	100	515

After cross tabulation of selected variables, table 4.110 below presents the Chi Square Test applied in hypothesis

Table 4.110 Testing of First Part of Hypothesis Two

Results	Value	df	Asymp. Sig. (2sided)
Pearson Chi-Square	.929 ^a	2	.629
Likelihood Ratio	.930	2	.628

Linear-by-Linear Association	.109	1	.741
N of Valid Cases	515		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 11.07.

Little or no real evidences against the null hypothesis. So null hypothesis fails to reject. There is no significance difference between gender of entrepreneur and availability of finance

Part Two: Availability of Bank Finance and Educational Qualification of Entrepreneur:

Table 4.111 presents the case processing summary for second part of hypothesis two
Table 4.111 Case Processing Summary for Second Part of Hypothesis Two

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Educational Qualification *						
Availability of finance	515	100.0%	0	.0%	515	100.0%

Table 4.112 below presents the cross-tabulation for selected variables

Table 4.112 Cross Tabulation for selected Variables

Count		Availability of Finance			Total
		Difficult	Average	Easy	
Educational Qualification	School Level	42	13	12	67
	Diploma/Certificate	124	38	29	191
	Graduation	98	35	40	173

Post-Graduation	29	10	13	52
Technical	12	7	4	23
Professional	4	3	2	9
Total	309	106	100	515

After cross tabulation of selected variables, table 4.113 below presents the Chi Square Test applied in hypothesis

Table 4.113 Testing of Second Part of Hypothesis Two

Results	Value	df	Asymp. Sig. (2sided)
Pearson Chi-Square	7.854 ^a	10	.643
Likelihood Ratio	7.643	10	.664
Linear-by-Linear Association	3.358	1	.067
N of Valid Cases	515		

a. 4 cells (22.2%) have expected count less than 5. The minimum expected count is 1.75.

Little or no real evidences against the null hypothesis. So null hypothesis fails to reject. There is no significant difference between educational qualification of entrepreneurs and availability of finance.

Part Three: Availability of Bank Finance and Experience of Entrepreneur:

Table 4.114 presents the case processing summary for third part of hypothesis two

Table 4.114 Case Processing Summary for Third Part of Hypothesis Two

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Categorized Age of Respondents * Availability of Finance	515	100.0%	0	.0%	515	100.0%

Table 4.115 below presents the cross-tabulation for selected variables

Table 4.115 Cross Tabulation for selected Variables

		Availability of Finance			Total
		Difficult	Average	Easy	
Categorized Experience of Respondents	Up to 5 years	4	2	3	9
	6 to 15 years	88	41	36	165
	16 to 25 years	101	35	26	162
	26 to 35 years	73	15	25	113
	36 to 45 years	30	9	7	46
	above 45 years	13	4	3	20
	Total	309	106	100	515

After cross tabulation of selected variables, table 4.116 below presents the Chi Square Test applied in hypothesis

Table 4.116 Testing of Third Part of Hypothesis Two

Result	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.315 ^a	10	.413
Likelihood Ratio	10.626	10	.387
Linear-by-Linear Association	3.216	1	.073
N of Valid Cases	515		

a. 4 cells (22.2%) have expected count less than 5. The minimum expected count is 1.75.

Little or no real evidences against the null hypothesis. So null hypothesis fails to reject. There is no significant difference between experience of respondents and availability of bank finance.

4.5.1.3 Testing of Third Hypothesis:

H1: Location and cluster of enterprise and availability of bank finance are not related significantly.

The result of testing of hypothesis one are tested in three parts as under

Part One: Availability of Bank Finance and Location of Enterprise:

Table 4.117 presents the case processing summary for first part of hypothesis three

Table 4.117 Case Processing Summary for First Part of Hypothesis Three

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent

Location of Enterprise *	515	100.0%	0	.0%	515	100.0%
Availability of Finance						

Table 4.118 below presents the cross-tabulation for selected variables

Table 4.118 Cross Tabulation for selected Variables

		Availability of Finance			Total
		Difficult	Average	Easy	
Location of Enterprise	Rajkot	199	84	66	349
	Vadodara	21	5	4	30
	Surat	15	4	1	20
	Ahmedabad	55	6	15	76
	Bhavnagar	12	4	6	22
	Kutch	7	3	8	18
Total		309	106	100	515

After cross tabulation of selected variables, table 4.119 below presents the Chi Square Test applied in hypothesis

Table 4.119 Testing of First Part of Hypothesis Three

Results	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.846 ^a	10	.011
Likelihood Ratio	23.949	10	.008
Linear-by-Linear Association	.115	1	.734
N of Valid Cases	515		

a. 6 cells (33.3%) have expected count less than 5. The minimum expected count is 3.50.

Moderate evidence against the null hypothesis. So alternative hypothesis likely to be accepted. There is significant difference between the location of enterprise and availability of finance.

Part Two: Availability of Bank Finance and Cluster of Enterprise:

Table 4.120 presents the case processing summary for second part of hypothesis three

Table 4.120 Case Processing Summary for Second Part of Hypothesis Three

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Related Cluster *						
Availability of Finance	515	100.0%	0	.0%	515	100.0%

Table 4.121 below presents the cross-tabulation for selected variables

Table 4.121 Cross Tabulation for selected Variables

Count		Availability of Finance			Total
		Difficult	Average	Easy	
Related Cluster	Oil Mill	54	10	6	70
	Textile Printing	12	4	6	22
	Flooring Tiles	35	8	15	58
	Wall Clock	27	1	8	36

Diesel Engine	64	30	14	108
Electric Motor	20	6	10	36
Casting & Forging	58	28	26	112
Machine Tools	19	13	13	45
Diamond Processing	20	6	2	28
Total	309	106	100	515

After cross tabulation of selected variables, table 4.122 below presents the Chi Square Test applied in hypothesis

Table 4.122 Testing of Second Part of Hypothesis Three

Result	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	38.098 ^a	16	.001
Likelihood Ratio	42.598	16	.000
Linear-by-Linear Association	6.404	1	.011
N of Valid Cases	515		

a. 2 cells (7.4%) have expected count less than 5. The minimum expected count is 4.27.

Moderate evidence against the null hypothesis. So alternative hypothesis likely to be accepted. There is significant difference between the cluster of enterprise and availability of finance.

4.5.1.4 Testing of Fourth Hypothesis:

H4: Perception regarding financing process and availability of bank finance are not related significantly.

The result of testing of hypothesis are tested in as under

Table 4.123 presents the case processing summary for hypothesis four

Table 4.123 Case Processing Summary for Hypothesis Four

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Perception *Availability of Finance	511	99.2%	4	.8%	515	100.0%

Table 4.124 below presents the cross-tabulation for selected variables

Table 4.124 Cross Tabulation for selected Variables

		Perceptions			Total
		Negative	Neutral	Positive	
Availability of Finance	Difficult	1625	1689	1321	4635
	Average	550	613	427	1590
	Easy	534	563	403	1500
TOTAL		2709	2865	2151	7725

After cross tabulation of selected variables, table 4.125 below presents the Chi Square Test applied in hypothesis

Table 4.125 Testing of Hypothesis Four

Results	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.540 ^a	4	.000
Likelihood Ratio	100.240	4	.000
Linear-by-Linear Association	.344	1	.558
N of Valid Cases	515		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 19.81.

Little or no real evidences against the null hypothesis. So null hypothesis failed to reject. Perception regarding financing process and availability of bank finance are not related significantly.

4.5.2 From the perspective of Bankers (Supply Side Hypothesis):

From the perspective of bankers, there are total four hypotheses formed. Testing of supply side hypothesis is as under:

4.5.2.1 Testing of First Hypothesis:

H1: Small ticket size and high transaction cost and availability of bank finance are not related significantly.

The result of testing of hypothesis one are tested as under.

Table 4.126 below presents the case processing summary for hypothesis one

Table 4.126 Case Processing Summary for Hypothesis One

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Availability of Finance * Small Ticket Size and High Transaction Cost	53	100.0%	0	.0%	53	100.0%

Table 4.123 below presents the cross-tabulation for selected variables

Table 4.127 Cross Tabulation for selected Variables

Count		Revised Cost			Total
		Less Important	Moderate	Very Important	
Availability of Finance	Nationalized Bank	20	5	5	30
	Private Bank	1	3	11	15
	Cooperative Bank	4	1	3	8

Total	25	9	19	53
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After cross tabulation of selected variables, table 4.128 below presents the Chi Square Test applied in hypothesis

Table 4.128 Testing of Hypothesis One

Results	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.789 ^a	4	.002
Likelihood Ratio	18.929	4	.001
Linear-by-Linear Association	5.508	1	.019
N of Valid Cases	53		

a. 4 cells (44.4%) have expected count less than 5. The minimum expected count is 1.36.

From the above testing, it is proved that very strong evidence against the null hypothesis is available. So alternative hypothesis is accepted. Small ticket size and high transaction cost and availability of bank finance are related significantly.

4.5.2.2 Testing of Second Hypothesis:

H2: Generation of the entrepreneur and availability of bank finance are not related significantly.

The result of testing of hypothesis two are tested as under.

Table 4.129 below presents the case processing summary for hypothesis two

Table 4.129 Case Processing Summary for Hypothesis Two

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Availability of Finance *	53	100.0%	0	.0%	53	100.0%
Generation of Entrepreneur	53	100.0%	0	.0%	53	100.0%

Table 4.130 below presents the cross-tabulation for selected variables

Table 4.130 Cross Tabulation for selected Variables

		Revised Generation			Total
		Less Important	Moderate	Very Important	
Availability of Finance	Nationalized Bank	18	8	4	30
	Private Bank	0	3	12	15
	Cooperative Bank	6	1	1	8
	Total	24	12	17	53

After cross tabulation of selected variables, table 4.131 below presents the Chi Square Test applied in hypothesis

Table 4.131 Testing of Hypothesis Two

Results	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	25.394 ^a	4	.000
Likelihood Ratio	29.898	4	.000
Linear-by-Linear Association	1.669	1	.196
N of Valid Cases	53		

a. 5 cells (55.6%) have expected count less than 5. The minimum expected count is 1.81.

Very strong evidence against the null hypothesis. So alternative hypothesis is accepted. Generation of the entrepreneur and availability of bank finance are not related significantly.

4.5.2.3 Testing of Third Hypothesis:

H3: Credit rating of the enterprise and availability of bank finance are not related significantly.

The result of testing of hypothesis three are tested as under.

Table 4.132 below presents the case processing summary for hypothesis three

Table 4.132 Case Processing Summary for Hypothesis Three

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Availability of Finance * Credit Rating	53	100.0%	0	.0%	53	100.0%

Table 4.133 below presents the cross-tabulation for selected variables

Table 4.133 Cross Tabulation for selected Variables

Count		Credit Rating			Total
		Less Important	Moderate	Very Important	
Availability of Finance	Nationalized Bank	14	9	7	30
	Private Bank	0	3	12	15
	Cooperative Bank	4	3	1	8
	Total	18	15	20	53

After cross tabulation of selected variables, table 4.134 below presents the Chi Square Test applied in hypothesis

Table 4.134 Testing of Hypothesis Three

Result	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.861 ^a	4	.001
Likelihood Ratio	21.740	4	.000
Linear-by-Linear Association	1.108	1	.292
N of Valid Cases	53		

a. 4 cells (44.4%) have expected count less than 5. The minimum expected count is 2.26.

Very strong evidence against the null hypothesis. So alternative hypothesis is selected. Credit rating of the enterprise and availability of bank finance are related significantly.

4.5.2.4 Testing of Fourth Hypothesis:

H4: Marketing efforts and product branding and availability of bank finance are not related significantly.

The result of testing of hypothesis four are tested as under.

Table 4.135 below presents the case processing summary for hypothesis four

Table 4.135 Case Processing Summary for Hypothesis Four

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Availability of Finance * Marketing efforts and product branding	53	100.0%	0	.0%	53	100.0%

Table 4.136 below presents the cross-tabulation for selected variables

Table 4.136 Cross Tabulation for selected Variables

Count		Marketing Efforts & Product Branding			Total
		Less Important	Moderate	Very Important	
Availability of Finance	Nationalized Bank	12	11	7	30
	Private Bank	2	3	10	15
	Cooperative Bank	3	3	2	8
	Total	17	17	19	53

After cross tabulation of selected variables, table 4.137 below presents the Chi Square Test applied in hypothesis

Table 4.137 Testing of Hypothesis Four

Result	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.80325 ^a	4	.001
Likelihood Ratio	37.741	4	.000
Linear-by-Linear Association	1.108	1	.292
N of Valid Cases	53		

a. 4 cells (44.4%) have expected count less than 5. The minimum expected count is 2.26.

Moderate evidence against the null hypothesis. So alternative hypothesis is selected. Marketing Efforts & Product Branding of the enterprise and availability of bank finance are related significantly.

4.6 Summary of Hypothesis Tested:

On the basis of testing of hypothesis above, researcher has presented below the summary of hypothesis from the perspective of entrepreneurs (Demand side hypothesis) tested with their results in table 4.138

Table 4.138 Summary of Demand side Hypothesis

Hypothesis			Test Applied	Result
H1	Part One	Availability of Bank Finance and Type of Enterprise	Chi Square Test	Very strong evidence against the null hypothesis is available. So alternative hypothesis is accepted.
	Part Two	Availability of Bank Finance and Nature of Management		Little or no real evidences against the null hypothesis. So Null Hypothesis failed to reject.
	Part Three	Availability of Bank Finance and Turnover of Enterprise		Very strong evidence against the null hypothesis. So alternative hypothesis selected.
	Part Four	Availability of Bank Finance and Age of Enterprise		Moderate evidence against the null hypothesis. So alternative hypothesis likely to be accepted.
H2	Part One	Availability of Bank Finance and Gender of Entrepreneur	Chi Square Test	Little or no real evidences against the null hypothesis. So null hypothesis fails to reject.
	Part Two	Availability of Bank Finance & Educational Qualification of Entrepreneur		Little or no real evidences against the null hypothesis. So null hypothesis fails to reject.

	Part Three	Availability of Bank Finance and Experience of Entrepreneur		Little or no real evidences against the null hypothesis. So null hypothesis fails to reject.
H3	Part One	Availability of Finance and Location of Enterprise	Chi Square Test	Moderate evidence against the null hypothesis. So alternative hypothesis likely to be accepted.
	Part Two	Availability of Finance and Cluster of Enterprise		Moderate evidence against the null hypothesis. So alternative hypothesis likely to be accepted.
H4	Perception regarding financing process and availability of bank finance are not related significantly.		Chi Square Test	Little or no real evidences against the null hypothesis. So null hypothesis failed to reject.

It is clear from the above conclusion that out of total four hypothesis tested, the first one contents total four parts. Only in third part, there is no evidence against the null hypothesis, so it is failed to reject. In remaining three parts, there is evidence against the null hypothesis so alternative hypothesis are selected. Second hypothesis is divided in three parts, and in all parts, there is no evidence against the hull hypothesis is found. So it is failed to reject. Third hypothesis is divided in two parts, and in both parts, evidence against the null hypothesis is received, so alternative hypothesis is selected. Whereas in last hypothesis, no evidence is found against the null hypothesis, so it is failed to reject.

Summary of hypothesis from the perspective of bankers (Supply side hypothesis) tested with their results in table 4.139

Table 4.139 Summary of Supply side Hypothesis

Hypothesis		Test Applied	Result
H1	Small ticket size and high transaction cost and availability of bank finance are not related significantly.	Chi Square Test	Very strong evidence against the null hypothesis is available. So alternative hypothesis is accepted.
H2	Generation of the entrepreneur and availability of bank finance are not related significantly.	Chi Square Test	Very strong evidence against the null hypothesis. So alternative hypothesis is accepted.
H3	Credit rating of the enterprise and availability of bank finance are not related significantly.	Chi Square Test	Very strong evidence against the null hypothesis. So alternative hypothesis is selected.
H4	Marketing efforts and product branding and availability of bank finance are not related significantly.	Chi Square Test	Moderate evidence against the null hypothesis. So alternative hypothesis is selected.

It is clear from the above summary of supply side hypothesis that in this category, total four hypothesis are tested. For three hypothesis, strong evidence is found against null hypothesis and in one hypothesis, moderate evidence is found, so in all cases, null hypothesis is failed to prove and alternative hypothesis is accepted.

Chapter - 5

Findings, Conclusion and future scope

Chapter contents:

5.1 Findings

5.2 Conclusions and future scope

5.1 Findings:

After analysis and interpretation of data collected through questionnaire and hypothesis testing, researcher has come out with some major findings. Findings are categorized as from the perspective of entrepreneurs and from the perspective of bankers. Findings are as under:

5.1.1 From the perspective of Entrepreneurs:

Availability of finance to entrepreneurs is an important issue raised since many years and it contains the problems which are quite unique in nature such as access to capital, technology, skill, market, awareness etc. Among all the factors, access of adequate finance at correct time resolves most of these critical issues. The major reasons for unavailability of adequate finance to entrepreneurs may be the high risk perception among bankers about the sector and the high transaction cost for loan appraisal. From the perspective of entrepreneurs, following are some major findings:

- Out of 515 entrepreneurs selected, majority of them belongs to HUF (156, 30.3%) followed by partnership (148, 28.7%) , sole proprietor (107.20.8%) and private company (82, 15.9%) and remaining belongs to other category (22, 4.3%).
- Turnover or sales of the business is one of the most important factor for availability of finance. As per the analysis only 9 (1.7%) enterprises have turnover above 10 crore and 69 (13.4%) enterprise have turnover above 1 crore. Remaining all enterprises have turnover less than 1 crore annually.
- Age of enterprise is not so important, but it shows the credibility of enterprise. In the analysis, oldest enterprise is one which has age above 50 years, 7 (1.4%) belongs to 41 to 50 years, 14 (2.7%) belongs to 31 to 40 years. New entrepreneurs, which are also known as first generation entrepreneurs who started their enterprise in last five years are 94 (18.3%).
- If we analyze entrepreneurs on the basis of gender, a high level of inequality is still derived. Out of total 515 respondents selected, majority of them 88.9% are male and female are only 11.1%. Thus, it shows that the sector is dominated by male entrepreneurs.

- If we make age wise distribution of respondents there are no minor respondents up to 18 years. Age of majority of respondents 165 (32%) falls in the category of 26 to 35 years. Second highest category includes the age group of 36 to 45 years with 162 respondents (31.5%). 113 respondents (21.9%) falls under category of 46 to 55 years, followed by 48 respondents (9.3%) in the age group of 56 to 65 years, 18 (3.5%) in the senior age group of more than 65 years. The least respondents 9 (1.7%) belongs to the age group of 19 to 25 years. So overall we can say that maximum number of respondents are having some experience.
- Experience of entrepreneurs is also considered as an important factor for availability of bank finance. As per the data analyzed, maximum number of respondents 197 (38.3%) have the experience of 11 to 20 years. Second highest experience category is of 21 to 30 years with total 169 (32.8%) respondents, followed by 94 (18.3%) in 31 to 40 years' experience, 32 (6.2%) in the category of 41 to 50 year experience, 13 (2.5%) in the category of 6 to 10 year experience and only 9 (1.7%) in the category of least experience up to 5 years. Only 1 respondent (0.20%) is recorded with highest experience above 50 years.
- On the basis of educational qualification of respondents, most of them are educated. If we analyse category wise, 191 (37.1%) have either diploma or certification. Second highest category consist 173 (33.6%) respondents with graduation degree. Whereas the respondents with education up to school level are 67 (13%), followed by 52 (10.1%) post graduates and 23 (4.5%) with technical education. Only 9 (1.7%) respondents have professional qualification.
- On the basis of category of the enterprise, maximum number of enterprises belongs to small enterprises 233 (45.2%). Second largest category is medium enterprises which are 180 (35%) and the category with the least enterprises is micro enterprises which are 102 (19.8%).
- Information regarding obtaining finance also plays an important role in availability of finance. As per the data derived, most of the respondents - 274 obtains information for financial sources from their personal contacts. Whereas 213 respondents obtains information from newspapers/magazine etc. 204 respondents obtain information from other ways and 82 of them obtains from government websites or advertisements. Only 36 respondents take the help of financial consultants regarding this.

- Finance received from other sources is also an important factor for availability of bank finance. On this base, maximum respondents 444 (33.20%) have favored the source of finance is from friends or relatives. Another most preferred source of finance is finance from non-banking finance companies which is adopted by 316 [23.60%] of respondents. Bank Overdraft or Cash Credit is also one of the attractive sources, as it is adopted by the 214 (16%) respondents. Other less preferred sources includes finance from other sources than mentioned here which are 83 (6.20%), finance from other enterprises 74 (5.50%), modern sources like lease/hire purchase/factoring are adopted by 67 (5%), mortgage by 61 (4.60%), government grants/subsidy is adopted by 48 (3.60%) and the least preferred source is private equity/venture capital which is adopted by only 31 respondents (2.30%).

Purpose of obtaining finance or utilization of bank finance is also an important factor for availability of finance. As per the information derived, majority of respondents 354 (31.10%) requires the finance for working capital. Second highest purpose of finance is for purchase of plant and machinery 138 (12.10%), followed by research and development 120 (10.50%), to buy the new business 111 (9.70%), for other purpose 106 (9.30%), for marketing and advertisement 98 (8.60%), for renovation 83 (7.30%), for training and development of employees 66 (5.80%) and to purchase of fixed assets like land and building are least 64 (5.60%).

- After applying for the bank finance, it is interested to study that at which stage majority of the entrepreneurs face problems. As per the analysis of data, most of the respondents 297 (57.5%) have faced problems during last stage of application. 85 (16.5%) of respondents are not able to say their opinion. On the other hand, respondents who have faced problems at the first stage before application are 56 (10.9%). Followed by the beginning stage after application where respondents are 42 (8.2%). The phase where respondents have faced minimum problems is mid stage after application where respondents are 35 (6.8%).
- One of the most common complain of entrepreneurs with regard to failure in obtaining the loan is not availability of proper guidance from the bank. On this base, majority of the respondents 222 (43.10%) consider lack of guidance regarding bank loan procedure as a main responsible factor. 166 (32.20%) of

respondents believe this factor responsible in some extent. According to 88 (17.10%) respondents, this factor is not so responsible. There are 24 (4.70%) respondents who are not able to say about the question. As per the 15 (2.9%) respondents this reason is not at all responsible towards availability of bank loan.

- Due to unavailability of finance, majority of entrepreneurs are facing problems in various issues, like effect on financial position of the enterprise, effect on productivity, effect on future planning of the business, worst effect on working capital related transactions, effect on sales or turnover, effects on research and development issues and issues related to human resources like training, salary, wages, welfare activities etc.
- As per the results of the hypothesis tested, in first part of first hypothesis, it clear that availability of bank finance and type of enterprise are significantly related to each other. So with compare to medium enterprise, small enterprise will face difficulties in obtaining finance. Greater the size of business or type of enterprise, availability of finance is easy.
- By testing the second part of hypothesis one, the result prove that there is no significant relation between the availability of bank finance and nature of management. So one can say that whether the enterprise is self-managed, partnership, HUF or any other type, it does not affect to availability of finance.
- Third part of hypothesis one is tested to check the significant relation between the turnover of the enterprise and availability of finance. As per the result of test, there is high level of relationship is found. So it said that higher the turnover of the business, higher chances of availability of bank finance.
- Fourth part of the hypothesis one presents the relationship between the availability of bank finance and age of enterprise. As per the result of hypothesis testing, it is proved that there is significant relation between the age of enterprise and availability of finance. Older the enterprise, higher chance of availability of finance.
- Second hypothesis is divided in three parts. First part of the second hypothesis presents the significant relation between the availability of bank finance and gender of entrepreneur. As per the result of hypothesis tested, little or no real evidence against the null hypothesis is obtained so null hypothesis failed to reject. So it clear that gender of the entrepreneur and availability of bank finance are not related significantly.

- Part two of the second hypothesis analyze the significant relation between availability of bank finance and educational qualification of enterprise. As per the result of hypothesis, null hypothesis is failed to reject. So we can say that there is no significant relation between the availability of bank finance and educational qualification of entrepreneur.
- Third part of hypothesis two presents the significant relation between availability of bank finance and experience of entrepreneur. As per the result of hypothesis, no evidence against null hypothesis. So it is clear that availability of finance and experience of entrepreneurs are not related significantly.
- Third hypothesis is divided in two parts. The first part of hypothesis three has derived the result that there is moderate evidence against the null hypothesis. So alternative hypothesis likely to be accepted. Thus availability of finance and location of enterprise are related significantly.
- Second part of third hypothesis three has received the outcome that there is moderate evidence against the null hypothesis. So alternative hypothesis likely to be accepted. Thus, availability of bank finance and cluster of enterprise are related significantly.
- Fourth hypothesis tests the significant relation between the perceptions of entrepreneurs regarding availability of bank finance and availability of bank finance. As per the result of hypothesis four, there is no evidence against the null hypothesis. Thus there is no significant relation between the perception regarding financing process and availability of bank finance.
- Thus overall analysis of entrepreneurs' perception regarding availability of bank finance presents the various results. Not only one factor but many factors are responsible for unavailability of finance to them and most of them are issues which can be resolved with proper guidance and committed efforts towards the issue. Now it's time for the government to focus on such issues and resolve them for fast growth and development of entrepreneurs and MSME sector.

5.1.2 From the perspective of Bankers:

After analysing the questionnaire developed for the entrepreneurs, analysis of questionnaire for bankers is undertaken. Issue of unavailability of finance is bilateral issue and one cannot blame only one side. That is the reason, for this study, researcher has analysed this issue with the help of bankers' perception also. Bankers – bank managers are

the person who are very right people to say anything about this and they, being the authorized person for approval of finance, have weighted in their answers. Following are some major findings of unavailability of finance from the perspective of bankers:

- One of the most important reason for unavailability of finance to entrepreneurs is their risky status. As per the data analyzed about the finance to MSMEs is likely to be NAP, majority of the bankers 19 (35.8%) believe this factor as important factor for financing gap in MSMEs, whereas 14 (26.4%) bankers are neutral about this issue. 13 (24.5%) of bankers believe this factor as most important factor. According to 5 (9.4%) bankers, this factor is less important and according to 2 (3.8%) bankers, this factor is not important.
- Another important factor considered for negligence of MSMEs for finance is high transaction cost of the finance. As per the analysis of this question, majority of the bankers 17 (32.1%) believe this factor as less important and according to 14 (26.4%) bankers, this factor is important. 9 (17%) respondents are neutral about the statement, whereas 8 (15.1%) respondents believe this factor as not important. Remaining 5 (9.4%) respondents believe this as very important factor.
- Whether generation of entrepreneurs play any role regarding availability of bank finance or not is also asked in the analysis. As per most of the bankers 19 (35.8%) believe this factor as less important and according to 13 (24.5%) bankers, this factor is important. 12 (22.6%) respondents are neutral about the statement, whereas 5 (9.4%) respondents believe this factor as not important. Remaining 4 (7.5%) respondents believe this factor as very important factor.
- Nowadays credit rating is considered as most important factor for availability of bank finance from the bankers' point of view. In answer of this statement, majority of the respondents 17 (32.1%) consider this credit rating as less important factor. Whereas, according to 16 (30.2%) respondents, this factor is important, and 15 (28.3%) respondents are neutral about the statement. 4 (7.5%) respondents consider this factor as most important factor and according to only one respondent (1.9%), credit rating is not important for availing the finance.
- Lack of proper infrastructure is considered for availability of bank loan or not is also asked to the bankers. According to majority of the respondents 17 (32.1%) are neutral about the statement, whereas 13 (24.5%) respondents consider lack of proper infrastructure as less important factor. 12 (22.6%) respondents believe it important and 6 (11.3%) respondents consider it as not important. According to 5

- (9.4%) respondents, this is very important factor for availing the finance.
- Most of the entrepreneurs are having lack of marketing and branding efforts for their products or services with compare to large organizations. As per majority of the respondents 20 (37.7%) consider this factor as important factor for availing the finance and 12 (22.6%) respondents consider this as very important factor, whereas 11 (20.8%) respondents are neutral about the statement. According to 7 (13.2%) respondents, it is less important and according to 3 (5.7%) respondents, it is not important factor for availing the bank finance.
 - Central government has announced the various schemes for the welfare of entrepreneurs and MSME sector, but all these schemes are utilized in very less proportion. Among the responsible factors for this, majority of respondents have claimed lack of awareness among entrepreneurs about such schemes, lack of awareness among all bank branches, branches which are providing this type of special services are limited, lengthy process for the same and less amount of loan is also considered.
 - Another important missing element according to bankers from entrepreneurs are lack of proper documents, lack of proper maintenance of financial accounts, financial reports, lack of mortgage or collateral for loan when the amount demanded is high, lack of proper project report required for bank loan, education and experience of entrepreneurs, seed capital invested by them etc.
 - On the other hand, banks are also facing various issues like lack of proper and committed staff towards this function, absence of branches in key areas and rural areas, lack of information among the staff, less number of employees pressurized with heavy work load etc. Banks should focus on these issues also to resolve the problem of bank finance to entrepreneurs.
 - From the perspective of bankers, total four hypothesis are tested with the help of chi square test. As per the result of the hypothesis one, small ticket size and high transaction cost and availability of bank finance are related significantly. So bank should focus to make the process more efficient and less costly.
 - As per the second hypothesis tested, again very strong evidence in found against the null hypothesis and on the basis of same, one can say that Generation of the entrepreneur and availability of bank finance are related significantly. If there is first generation of entrepreneur, more difficulties in getting finance are predicted.
 - According to the results of hypothesis three, very strong evidence against the null hypothesis. So we can say that credit rating of the enterprise and availability of

bank finance are related significantly. So MSMEs should be made aware about same to avail the finance and other benefits easily with the help of credit rating.

- Fourth and last hypothesis of supply side is also against the null hypothesis and it prove that marketing efforts and product branding and availability of bank finance are related significantly. So the entrepreneurs who are more conscious about the product marketing and branding have great chances of getting finance from the bank easily.

5.4 Conclusion and future scope:

After conducting the survey and analyzing the data collected through questionnaire and testing them with the help of statistical tools, researcher has derived some findings which are mentioned above and on the basis of entire work and findings and experience during the research work, researcher has narrated some suggestions which may be helpful to the entrepreneurs, bankers, policy makers and all those stakeholders which are related to finance directly or indirectly. These suggestion are feasible up to which extent or are result oriented or not is the practical issue, as all these suggestions are based on limited work done in particular region and clusters and samples.

5.4.1 For Bankers:

- **Improvement in Human Resource in Banks:**

Human capital is the key driver of finance in banking. Banks should focus on recruitment of trained and committed staff in their all branches for this purpose. Banks may also develop the longtime relationship with entrepreneurs and can help and guide them in nurturing the enterprise till it make profit.

- **Improvement in procedures and policies:**

Another important aspect is lengthy process of bank finance and difficult policies of credit. Normally entrepreneurs are not able to take help of any experts or professionals of finance so they face maximum difficulties at this stage. Banks should focus on make their procedures more customer friendly so that they can contact and follow the procedures without any hesitation.

- **Less or No Collateral from entrepreneurs:**

Many entrepreneurs facing problem of bank finance due to lack of collateral or mortgage. At this moment, it should be responsibility of banks to resolve this issue

to promote the entrepreneurs. For large enterprises, it is easy to provide the collateral but it is very difficult for small and first generation entrepreneurs to cop up with the collateral. So banks should efforts towards less or no collateral from first generation entrepreneurs.

➤ **Make the finance Cost Effective:**

Another most important challenge and issue for the bankers is to make the finance to MSMEs more cost effective. As per the data analyzed, most of the bankers believe this factor as important factor for non-availability of bank finance. So it proves that the current procedures of bank finance are not cost effective. If banks resolve this issue, entrepreneurs can get loan easily without any lengthy process and at the lowest cost.

➤ **Change the perception regarding MSMEs:**

It is noted that majority of bankers considers finance to MSMEs as increase in NPA. It may be true in some extent but by considering the contribution of this sector in Indian economy and GDP, they should avoid this type of mindset. Instead of that, bankers should work with entrepreneurs of MSMEs with the mind set of development partners. This sector is the backbone of large enterprises so without accelerating them, it is not possible to boost the large organizations also. So bankers should change their perceptions regarding MSMEs.

➤ **Remedial Centers:**

Bank should think about to open some remedial centers for MSMEs and entrepreneurs. In such remedial centers, experienced staff should be appointed who guide and help to entrepreneurs in all aspects for getting the finance. With the help of such remedial centers, bank can resolve the maximum number of issues which they are facing in providing finance.

5.4.2 For Entrepreneurs:

➤ **Need to Increase Competitiveness:**

Entrepreneurs belongs to MSME sector in India are facing various issues due to lack of finance, proper guidance, lack of infrastructural facilities, lack of expertise knowledge, marketing, advertisement, branding etc. Due to that, they are not able to compete with the large organizations or multinational companies or foreign companies. So it is advice to entrepreneurs that guidance of expert professional and research and development are also important like other factors in any

business. They should focus to improve competitiveness by considering all these issues. Initially they may cost high but at the long run, it may convert in cost efficiency and saving and due to that improvement in competitiveness.

➤ **Proper Documentation:**

Another important aspect for lacking in finance for entrepreneurs is lack of proper documentation. As per the data analyzed, most of the respondents have proven that their loans are rejected due to lack of proper documentation and improper final accounts. Entrepreneurs should focus on this issue with due diligence and should be serious about the finance and accounting work of the enterprise. Due to proper documentation, they will be able to get finance easily.

➤ **Marketing/Branding Efforts:**

Only production of service or product is not only an important factor. But advertisement, after sale service or branding are also important. Most of the entrepreneurs do not consider this as important factors. As per the tradition their trade is limited till selling only. But nowadays marketing and branding efforts are also very important aspects in any business. Entrepreneurs should focus on this to boost their business.

➤ **Seed Capital:**

Seed capital or startup capital which is also known as equity plays an important role to avail the bank finance also. Any bank will not issue a loan of the entire amount but it will wish that some proportion of the amount should be backed by the entrepreneurs. So considering this requirement, entrepreneurs' always should be ready to arrange a specific initial proportion of finance from their sources and should be dependent on the bank for the remaining portion of finance.

➤ **Careful selection of Other Sources of Finance:**

It is obvious that no entrepreneur or business uses only one source of finance but they are dependent on various sources. Entrepreneurs should be very careful while they are choosing other sources of finance. It should be noted that the sources selected should be legal and formal sources of finance and obtained in the manner so that the debt equity ratio of the enterprise should be balanced.

➤ **Expertise Knowledge and Professional Help:**

It is noted that very few entrepreneurs are getting professional services regarding finance and financial management. In India, most of the entrepreneur takes financial decisions on their own. Actually this trend is very dangerous for them. It is

not necessary that a good entrepreneurs may good in financial decisions also. So instead of taking this type of decisions their own, they should avail facilities of financial experts who are working professionally.

➤ **Innovative and Modern Sources of Finance:**

Nowadays apart from the traditional sources of finance, entrepreneurs should think about the innovative and modern sources of finance. Like venture capital, private equity, factoring, foreign direct investment etc. By use of innovative sources of finance, enterprise also can get the advantage of their advice and expertise knowledge.

➤ **Innovations and Technology:**

It is believed that Indian MAME sector is mainly dependent on traditional sources of production say manual production and there is lack of innovative technology. Entrepreneurs should try to avoid this type of image by investing enough amount in innovative technologies. They can also take advantage of internet in this regard. With the help of social networking sites, they can make marketing and branding of their products and services.

➤ **Research and Development:**

Another important aspect where Indian entrepreneurs are required to improve their image is research and development. It is believed that Indian entrepreneurs and MSME sector spends very less amount for research and development and designing of products. By spending more amount after research and innovation, Indian entrepreneurs can improve their image and can attract the bankers.

➤ **Credit Rating**

Credit rating is a very essential requirement for any type of business nowadays. Various credit rating companies are providing their services in India and it is available for all type of business. Due to credit rating, bank will find it very easy to put trust on any enterprise. So credit rating initially may be costly for any enterprise, but it may be profitable for them.

5.4.3 For Policy Makers:

To boost the MSME sector and entrepreneurs, role of policy makers is also very critical. Various policy makers play vital role in availability of finance to MSMEs like central government, state government, ministry of finance, Reserve Bank of India, Banking companies, NBFCs etc. Following are some recommendations for policy makers:

➤ **Easy and Timely access of credit:**

Major problem of Indian SMEs is adequate and timely access of credit from banks for growth and development. To overcome this issue, the Prime Minister's Task Force on MSMEs (Chairman: Shri T.K.A. Nair, Principal Secretary, Government of India) constituted by the Government of India. According to the recommendations of the task force, banks are required to achieve a 20% year on year growth in credit to micro and small enterprises; the allocation of 60% of the MSE advances to the micro enterprises is to be achieved in stages and then 10% annual growth in number of micro enterprise accounts. The RBI is closely monitoring the achievement of targets by banks on quarterly basis. Though only policy recommendations are not enough, banks have to work on them with their great efforts to achieve the target of empowerment of SMES.

➤ **Open the sector for Venture/ Risk Capital:**

Normally banks consider the SMEs very risky as in initial stages, there are high chances of failure or default. So at this stage venture/ risk capital is considered as more appropriate financing instrument for high growth potential and startup SMEs. During the starting face, firms need finance to study, access and develop an initial concept or for product development and initial marketing. Venture capitalists or angel investors not only provides them finance, but also provides the guidance and help in managerial decision making. For this purpose, removing fiscal and regulatory impediments to the use of such funds by the SMEs should be considered on priority. The Government of India, in terms of the recommendations of the PM's Task Force on MSMEs, is looking into the area.

➤ **Access of equity capital through stock exchanges:**

For Indian SMEs, access of equity capital is a genuine problem. There is negligible flow of equity capital is noted in this sector. Due to lack of equity funds, SMEs suffers with great issues of growth, research, development, market expansion, technology etc. There is a demand for a dedicated exchanges for MSMEs and SEBI has permitted BSE and NSE for the same. Even BSE has already started a special exchange on MSMEs i.e. BSE SME, but very few SMEs are listed in it till date. So it also requires awareness among the SMEs in this regard.

➤ **Need for Skilled Labour:**

India is considered as the youngest nation in the world, but on the other hand, SME sector is facing large problem for skilled labour. As per the report of the National Commission on Population, by 2016, approximately 50% of the total population will be in the age group of 15 – 25 years. On an average, it is estimated that around 1.5 crore persons per annum would enter the employment market during the next 30 years. Thus Government has very vast opportunity to convert this youth in skilled labour and to avail them for SMEs and corporate sector. Though the Rural Self Employment Training Institutes (RSETIs) are working in this direction. There is, however, a need to examine the impact of it.

➤ **Access of Information Technology:**

In the recent research undertaken by Google and FICCI regarding usage of information technology and internet by SMEs, very shocking outcome have been founded. Out of total registered SMEs in India, only 5% of them having their own website and access of internet. In other words, 95% SMEs are not connected with the world market though internet facilities and not using the information technology for the interest of their business. It is also founded in research that the firms those are having their own website, enjoying 8 to 9 times more net profit than who do not have access of it. So it proves that there is a keen need to include maximum SMEs with internet and information technology. In this regard, recently MSME Ministry has started Project Baadal to avail the benefits of cloud computing, though it is just in introductory face, but it may prove as miracle in growth of SMEs if implemented properly.

➤ **Services of Factoring:**

One of the serious credit issue for SMEs is working capital. Due to the credit norms in the industry, delay in settlements of dues or bills etc. effects adversely to SMEs. At this moment factoring services to SMEs may help. Factoring provides liquidity to SMEs against their receivables from customers and is regarded as a cash management tool. To facilitate factoring services, the Government has recently passed the Factoring Regulation Bill that would address delays in payment and liquidity problems of SMEs.

➤ **Control the mortality rate and sickness:**

Growing incidence of sickness of SMEs is yet another area of concern. When the sickness prolongs it leads to the closure of units and unemployment.

Following table 5.1 shows the position of sick SMEs at the end of March 2011

Table 5.1 Position of Sick SMEs in March, 2011 (Rs. In crore)

End of	Total number of sick units		Potentially Viable		Non-viable		Viability yet to be decided		Units put under nursing	
	Units	O/s	Units	O/s	Units	O/s	Units	O/s	Units	O/s
March 2010	77723	5233	9160	964	64403	3891	4160	377	2360	478
March 2011	90141	5211	7118	1113	76518	3589	6505	509	4698	518

*Source: 4th MSME Census, <http://www.dcmsme.gov.in>

The number of units identified as potentially viable as a percentage to total sick SME units is around 8% whereas the number of sick units found unviable was as high as 85%. As any other sickness, the need of timely treatment after identification of sickness cannot be overemphasized in SMEs. The process for the same should not only be quick, efficient, cheap and fair to all stakeholders but also acceptable to and implementable for all, with necessary monitoring arrangements for implementation of the same.

➤ **Infrastructure Facilities:**

Growth of industrial sector is not possible without the growth of infrastructure facilities. It is the prerequisite for sound growth and development of SMEs. In India, maximum SMEs are located in rural area which are not connected with the cities by road or lacking proper logistic facilities. So it is urgent requirement for the government to develop proper infrastructure facilities like road, electricity, water, transportation and logistics etc. Especially in underdeveloped or weak states, it is a burning issue, and that is the reason why corporate sector neglecting such regions for starting their industries. So government should give priority to such states for development of infrastructure.

➤ **Proper Exit Policy for SMEs:**

With compare to other sector, the failure rate of SMEs, especially for first generation entrepreneur is always high, because such enterprises are started on the basis of newly innovated ideas or thoughts. Keeping this in view, most of the countries have put in place mechanism to handle insolvencies and bankruptcies. The present mechanism available in India for SMEs in archaic. Business failure in India is viewed as stigma, which adversely impacts individual creativity and development in the country. So there is a keen need to change in this system and refined it.

7. Achievements with respect to the objectives:

–To know the problems faced by the marginal entrepreneurs: Here, the actual problems of the marginal entrepreneurs are pondered upon. It is known that the marginal entrepreneurs are facing critical problems at every stage of their business that can be broadly categorized as marketing, production, human resources, management and specially finance.

–To identify the sources of finance available to marginal entrepreneur: while identifying the sources of finance to marginal entrepreneurs, it is known that the marginal entrepreneurs are having mainly formal and informal sources of finances. In informal sources, it includes, the private borrowings, own savings, finances from friends and relatives etc. whereas, in, formal sources, it includes, the funding from banks, institutions etc.

–To assess the impact of the schemes / programs offered to marginal entrepreneurs by bank: Among the various sources available to the marginal entrepreneurs, finances from the banks considered as one of the formal sources. Here, in this study there was an aim to assess the impact of the bank finance to the marginal entrepreneurs as the available informal sources are risky and almost charging higher rate of interest on private borrowing. So for marginal entrepreneurs, it is very much necessary that banks finances be adequately available in right time. And it is known that if bank finances are readily available to the marginal entrepreneurs in required quantity in right time then the potential of the marginal entrepreneurs can be leveraged.

Thus, bank finances have the positive impact on the productivity and performances of the marginal entrepreneurs.

–To identify major issues in bank financing - from demand side constraints and supply side constraints: As bank finances are an important source of finance to the marginal entrepreneurs, so the availability of finances has to be made by the formal sources of finance i.e. by banks. For banks, it is also an important and crucial decision to finance marginal entrepreneurs as their status for the repayment remains questionable and risky. And banks already have huge burden of NPAs to deal with. In such condition, it becomes tough for banks to finance without proper and adequate guarantees, while marginal entrepreneurs are sometimes unable to provide the same as per the norms of the bank. Proper documentations, filing of the returns etc. are necessary while releasing the finances but in case of marginal entrepreneurs, it becomes difficult to produce as per the requirement. So, there are certain major issues from the bank side i.e. supply side too to be considered while financing to the marginal entrepreneurs.

–To analyze responses sought from entrepreneurs and bank officials in regard to the problems being faced and related issues in bank finance and ascertain viability of measures suggested by them to overcome from the constraints: to release the finance to the marginal entrepreneurs, it takes policies and people involvement. The policies are there to show the requirements to be filled up by the marginal entrepreneurs. It shows the necessary documentations to be made, procedures to be followed, and guarantees to be taken in the process of making finances available to the marginal entrepreneurs. People are involved in the process of sanctioning and releasing the finances to the marginal involvement. Here, the knowledge, services and behavior of the staff involved in the process play vital role as they directly deal with the end user of the banking services provided by the banks. The responses from the bank officials were mixed. Highly dedicated and committed bank officials were there and the same time the opposite kind of people also found. They have provided essential responses in the form of suggestions from their side on the basis of their work experience that was found crucial.

This research undertakes the analytical study of availability of bank finance to entrepreneurs from selected banks. In the study, it has been found that MSMEs are

considered as the backbone of the economy, and that is the reason, responsibility of banks increases. This is the right time when banks have to view themselves not just as providers of credit but as partners in the growth of these enterprises, especially for first generation entrepreneurs. All commercial banks need to ensure greater participation in the affairs of their SME clients by convergence of credit services and non-credit services. But for this bank staff also should be trained for customized training programs to meet the specific needs of SMEs such as knowledge of markets, both domestic and global, use of technology, etc. Banks also need to create products specifically suited to the requirements of SMES and should take a longer term view of its relationship with such entities while pricing such products. Thus, if India were to have a growth rate of 8 – 10% for the next couple of decades, it needs a strong SME sector. SMEs themselves have to be on their toes, in this rapidly changing environment, and keep evolving to stay clear of all the potential pitfalls that confront them in their progress from SME to large corporations.

To Conclude:

- Entrepreneurs are the integral part of the economy

- Banks have to view themselves not just as providers of credit but as partners in the growth of these enterprises.

- Banks also need to create products specifically suited to the requirements of marginal entrepreneurs and should take a longer term view of its relationship with such entities while pricing such products.

- Whereas the entrepreneurs have to increase their competitiveness and awareness regarding the schemes designed by the Government and offered by the banks.

With the above findings and conclusions, expressing them both in the light of limitations and scope of the study, the present study would like to rest its thoughts with a positive hope of touching the untapped aspects in the present study in form of future continuous research. Ending a thesis is not the end of research, but actually a beginning for forthcoming researches.

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