

Gaps in MSME Financing in Assam : The MSME Side

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Abstract

An empirical study has been carried out to find out for borrowers what factors lead to difficulty or satisfaction in the borrowing process and for non-borrowers it has tried to identify reasons behind not seeking institutional finance. The broad objective of the study is to find out the problems being faced by MSMEs in obtaining institutional finance. The survey was conducted in the Kamrup district of Assam using questionnaires presented to both registered and unregistered MSMEs. The conclusion from the study was that registration did not have much influence over borrowing behaviour of MSMEs. Also, both borrowers and non-borrowers were found to have the highest problems with security requirements.

Keywords : MSME, Financing Gaps, Banks, Lending, Credit.

1. Introduction

A number of surveys conducted have found that MSME sector has been playing an important role in the socio economic development of the country and contributes about 8 per cent of GDP and accounts for around 40 per cent of the total exports and around 45 per cent of the manufacturing output (Good Governance for MSMEs, 2015). In his valedictory speech, R. Gandhi, Deputy Governor of RBI stated that MSMEs are particularly important for emerging countries. This is primarily because of MSME's potential in job creation. Yet, lack of access to finance is a major obstacle to their growth (2015).

The limits for investment in plant and machinery / equipment for manufacturing / service enterprise, as notified by Ministry of Micro, Small and Medium Enterprises, vide S.O.1642(E) dated September 9, 2006 are as under -

Table 1
Investment Limits for Micro, Small and Medium Enterprises

Manufacturing Sector	
Enterprises	Investment in plant and machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipment
Micro Enterprises	Does not exceed ten lakh rupees
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five crore rupees

Source: msme.gov.in

The All India MSME Census presents the amount of finance received by MSMEs from various sources as per the Fourth Census of MSMEs 2006-07 (Quick Results Fourth All India Survey of MSME 2006-07, 2009). As observed from Table 2, institutional sources could cover only a negligible proportion of total MSMEs.

Table 2
Sources of Finance Received by MSMEs in India as per 4th Census of MSMEs (amount in lakhs)

Source of Finance	Distribution of MSME units			Percent Distribution		
	Registered	Unregistered	Total	Registered	Unregistered	Total
No finance/ Self finance	1362568	22850626	24213194	87.77	93.08	92.77
Finance through institutional sources	174060	1177212	1351272	11.21	4.80	5.18
Finance through non-institutional sources	15864	520467	536331	1.02	2.12	2.05
Total	1552492	24548305	26100797	100	100	100

Source: Quick results Fourth All India Census on MSME 2006-07

2. MSME Scenario in Assam

Assam stood at 15th out of 35 states in India with respect to number of unregistered MSMEs and at 18th position in case of registered MSMEs as per the census carried out in 2006-07 (Final Report on Fourth All India Census of MSME - Unregistered Sector 2006-07, 2011). On the other hand, in addition to limited development of industries in NER, there is limited availability of data on whatever industries exist there. Around 54 per cent of industrial units of North-eastern states are concentrated in Assam (Khanka, 2006). There were 37,356 registered MSME units in Assam providing employment to 2.05 lakh persons till the end of March 2013 (Economic Survey of Assam 2013-14, 2014). The SLBC data showing the credit disbursals towards MSME sector by commercial banks in Assam for the year 2014-15 as a percentage of their total credit disbursements do not show a favourable picture for the MSMEs. Majority of the banks' (73 per cent) MSME credit disbursal as a proportion of total credit disbursals ranges between 1 to 6 per cent (Financing under MSME Sector of Assam in the FY2014-2015, 2015).

Table 3
Credit Disbursals Towards MSME Sector by Commercial Banks in Assam
During 2014-15
(Amount in lakhs)

Sl. No.	Bank Name	Total Disbursements	MSME DISBURSEMENTS			Total MSME Disbursal	MSME (% of Total Disbursements)
			Micro	Small	Medium		
1	Allahabad Bank	163409.7	4206	6268	0	10474	6.40
2	Andhra Bank	24231.5	154.2	412	0	566.2	2.33
3	Bank Of Baroda	65761.1	1977.4	0	0	1977.4	3.00
4	Bank Of India	40650	945	120	600	1665	4.09
5	Bank Of Maharashtra	2076.4	19.2	73.09	0	92.3	4.44
6	Canara Bank	116838.8	715.1	1428.9	150.8	2294.9	1.96
7	Central Bank Of India	154234	2651	1868	685	5204	3.37
8	Dena Bank	11432	1	529	89	619	5.41
9	HDFC	176220.2	6602.1	2466.9	952.7	10021.7	5.68

10	Federal Bank	23870.4	2375.2	2858.7	1229.4	6463.3	27.07
11	ICICI Bank	48757	8648	6935	1250	16833	34.52
12	IDBI Bank	123694	694	1038	727	2459	1.98
13	Indian Bank	59423.9	927.7	1479	200	2606.7	4.38
14	Indus Ind Bank	56117.3	2297.6	5299.1	294.8	7891.6	14.06
15	Indian Overseas Bank	25348	493	641.5	0	1134.5	4.47
16	Oriental Bank Of Commerce	7237.2	865	0	0	865	11.95
17	Punjab National Bank	161888.9	1024.2	1568	2135.7	4727.9	2.92
18	Punjab And Sindh Bank	6014.4	255.2	300	0	555.2	9.23
19	SBBJ	1433	0	0	0	0	0
20	State Bank Of India	1355412.1	3900	7900	6900	18700	1.37
21	Syndicate Bank	46594	118.2	1098.1	0	1216.3	2.61
22	Union Bank Of India	400228.3	14312	9250	0	23562	5.88
23	UCO Bank	150619.4	425	758	0	1183	0.78
24	United Bank Of India	65961.9	1765.6	490.8	60.1	2316.5	3.51
25	Axis Bank	93199.9	20.4	22.1	627.3	669.9	0.71
26	Vijaya Bank	22348.6	765.2	1092.4	0	1857.6	8.31
27	Corporation Bank	7854.3	173	1650	1	1824	23.22
28	AGVN	378136.6	18940.8	2263.5	594.4	21798.8	5.76
29	Langpi Dehangi	23785.2	122.8	0	0	122.8	0.51
30	Apex Co-operative Bank	66282	0	32	0	32	0.04

Source : State Level Bankers' Committee Background Paper Agenda for March 2015 meeting and percentage author calculated.

This study tries to find out what hinders the MSMEs in obtaining finance. For borrowers it tries to find out what factors lead to difficulty or satisfaction in the borrowing process. For non-borrowers it has tried to identify reasons behind not seeking institutional finance.

3. Theoretical Framework

Bank financing of MSMEs has always been an area of much debate. While development economists may propagate more finance towards MSMEs, growth economists may argue that the sector does not help the growth of banking industry. A number of researches conducted over the World have focused on MSMEs. As shown below is a list of articles reviewed for this paper :

Table 4
List of Articles Reviewed

Author(S) (Year)	Title	Geographical Area	Sample Size
Robert Cull, Lance E. Davis, Naomi R. Lamoreaux and Jean-Laurent Rosentha(2005)	Historical financing of small- and medium-size enterprises	North Atlantic Core	-
Alex Coad and Jaganaddha Pawan Tamvada(2011)	Firm growth and barriers to growth among small firms in India	India	Based on MSME Census
Dr.K. Alamelu and R. Baskaran(2011)	MSMEs: The Key to Entrepreneurship Development in India	India	-
Bedman Narteh (2013)	SME bank selection and patronage behaviour in the Ghanaian banking industry	Ghana	503
Thorsten Beck and AsliDemirguc-Kunt(2006)	Small and medium-size enterprises : Access to finance as a growth constraint.	Cross-country	-
Ram JassYadav (2012)	MSME Finance: Viability Study from Bankers' Perspective	India	80

Allen N. Berger and Gregory F. Udell (2006)	A More Complete Conceptual Framework for SME Finance	-	-
Dr. Urmila Moon (2012)	Problems and Prospects of MSMEs in India	India	-
Ashish Kumar, VikasBatra and S. K.Sharma(2009)	Micro, Small and Medium Enterprises (MSMEs) in India : Challenges and Issues in the Current Scenario	India	-
Mahendra Reddy (2007)	Small Business in Small Economies: Constraints and Opportunities for Growth	Fiji	240
Naidu and Chand (2011)	A Comparative Study of the Financial Problems Faced by Micro, Small and Medium Enterprises in the Manufacturing Sector of Fiji and Tonga	Fiji and Tonga	200
Chandana Goswami (2014)	Credit Preference of Micro and Small Enterprises of Assam (India)	Assam, India	152

Cull, Davis, Lamoreaux and Rosenthal (2005) stated that a common explanation for the comparative absence of SMEs in poor countries today is that they cannot obtain access to capital. They referred to a survey conducted by the World Bank which confirms, large firms everywhere generally have more access to bank credit, both local and foreign, than small firms, whereas the latter rely heavily on internal funds and retained earnings. They also implicated that the countries in which SMEs have access to external sources are those with more advanced financial systems, suggesting there may have been a causal relationship between financial development and the viability of SMEs. Coad and Tamvada(2011) identified that while problems of labor and market were more visible in large enterprises, smaller and younger enterprises seemed more susceptible to problems relating to working capital, lack of demand, power shortages, equipment problems and also raw materials and management problems. Alamelu and Bhaskaran (2011) stated that the MSME sector in India is heterogeneous, dispersed, and mostly unorganized. In this regard, they believe that some of the core challenges of MSMEs are inadequate access to credit and Dwindling working capital.

Narteh(2013) stated how availability of credit was found highly vital to the success of SMEs. In Ghana, due to low incomes and consequently low savings rates, SME managers require external support mostly from the banks in order to operate profitably. However, most SMEs cannot meet the rigid collateral demands of the banks. Beck and Kunt(2006) in their article summarized recent empirical research which shows that access to finance is an important growth constraint for SMEs and financial and legal institutions play an important role in relaxing this constraint, and that innovative financing instruments can help facilitate SMEs' access to finance even in the absence of well-developed institutions.

Yadav (2012) in his study reported that bank finance has been observed as the most preferable source of funding by SMEs with the highest weightage of 94 per cent followed by retained earnings at 81 per cent and others. It was also found in the study that 79 per cent of SMEs reported that bankers were unwilling to provide loans whereas out of bankers' 21 per cent were observed to be indifferent to help SME firms. Berger and Udell(2006) stated that their investigation strongly suggests that lending infrastructures have important effects on SME credit availability. "Better" lending infrastructures may significantly improve SME credit availability through facilitating the use of the various lending technologies. Dr. Urmila Moon (2012) stated that the inherent weakness of small enterprises and lack of transparency in the financial data make the process of rating difficult for MSMEs. The author further adds that in spite of promotional measures of RBI, there has been high rate of NPAs in this sector leading to further hindrances in flow of credit to the sector. Kumar, Batra& Sharma (2009) reasoned how due to their weak financial strength, unclear information of business plans and accounting statements, the credit worthiness of MSMEs cannot be ascertained and as such they are considered as high-risk borrowers by investors and banks. Reddy (2007) believed that lack of security, insecure environment, lack of experience and lack of capital are stated as a major threat to credit procurement by small firms. The financial sector also is quite biased towards more developed firms. Naidu and Chand (2011) reported that MSMEs find it difficult to compete with their large counterparts and access the various financial services on offer which constrains their growth and survival. The "Report on Trend and Progress of Banking in India 2012-13" states that the lack of financial literacy and operational skills pose formidable challenge for MSE borrowers, underscoring the need for facilitation by banks in these critical areas. A study conducted on SMEs in Assam by Goswami (2014) revealed that 75 per cent respondents used their own fund for initial investment, while 93 per cent stated using bank loans. It also found that majority of borrowers sought cash credit, but after availing the loan majority of the borrowers had utilised the fund for starting the business. It was also found that banks generally do not go out to woo this segment of customers. Majority of the respondents stated that it took longer than the stipulated time for the credit to be sanctioned.

From the review of existing literature, it can be seen that considerable work has been done on the MSME sector. But limited research has been done for MSMEs located in

the state of Assam. The research work done in the state of Assam mostly concentrates on managerial skill development and only limited study focuses on the finance gap in MSME financing. Also the registration status of MSMEs has not been taken as a factor in the previous studies done. In fig 1, we have listed the factors affecting MSME financing from supply side (Bank) as well demand side (MSME) as summarized from the literature review.

Fig 1
Factors Affecting MSME Financing

MSME Side		Bank Side
Weak financial base	MSME Financing	Lack of adequate financial records
Lack of financial literacy		High rate of NPAs
Lack of experience		Low credit-worthiness
Competition with bigger firms		Lack of security
Lack of operational skills		
Hassles of bank loan processing		

4. Objectives

The broad objective of the study is to find out the problems being faced by MSMEs in obtaining institutional finance. The study tries to find out what influences MSMEs in going for institutional finance and how satisfied they are with the various aspects of institutional finance.

5. Research Methodology

5.1 Geographical Area

The geographical area for the study is Kamrup district in the state of Assam as it has the highest concentration of registered MSMEs (9270 units).

5.2 Population

Registered and Unregistered MSMEs in the State of Assam.

i) Registered MSMEs

Enterprises registered with District Industries Centres in the State/UTs., Khadi and Village Industries Commission/ Khadi and Village Industries Board, Coir Board as on 31.03.2007 and factories under the coverage of section 2m(i) and 2m(ii) of the Factories Act, 1948 used for Annual Survey of Industries having investment in plant & machinery up to Rs.10 crores, are considered as belonging to the registered sector. The total number of registered MSMEs in Assam in 2010-11 was 34,618 units. Appendix 1 shows the number of registered MSMEs district-wise in Assam.

ii) Unregistered MSMEs

All MSMEs engaged in the activities of manufacturing or in providing/ rendering of services, not registered permanently or not filed Entrepreneurs Memorandum Part-II/ [EM-II] with State Directorates of Industries/District Industries Centres on or before 31-3-2007 are called unregistered MSMEs ("Annual Report 2013-14" 14). The definite population size for unregistered MSMEs is not available. A sample survey conducted by the Govt. of India in 2006-07 and reports from Economic Census (2005) reported that the strength of the unregistered sector is approximately more than 6 lakhs in Assam ("Annual Report 2012-13" 23).

5.3 Sampling Design

Sample Size

The study has taken the responses of 81 sample units, 47 were borrowers of bank finance and 34 were non-borrowers. The sampling unit is MSME units and sampling element is owner/s, proprietor/s, manager/s or competent representative.

Sampling Procedure

For registered MSME units, Random Sampling method was used to select samples. The website stattrek.com was used to generate random numbers. The EM-II list of MSMEs compiled by DICC, Kamrup was consulted using the random numbers generated to select the samples for the study. For unregistered MSME units, Convenience Sampling method was used. The respondents were selected on the basis of location, availability and willingness to respond.

5.4 Data Collection

Primary and secondary data were collected. The primary data collection was carried with the help of a schedule. Secondary data was collected from published reports and other data source from websites and personal visits to offices, such as RBI reports, SLBC reports, reports and lists by District Industries and Commerce centres, Annual Reports by MSME Development Institutes, Planning Commission Reports, journals and articles.

6. Data Analysis

6.1 Sample Profile

91% of the MSMEs were micro units, 8% were small and 1% was medium. 58% of the units were borrowers from bank while the rest, i.e. 42% have not borrowed from banks. Half the sample comprised of registered units and the rest unregistered units. 20% of the firms have existed for more than 15 years old, 26% between 11-15 years, 48% between 5-10 years and 6% of less than 5 years. 66% of the respondents were simple matriculate, 28%

have studied till 10+2, 4% were graduates and only 2% were post graduates. 83% of the firms had up to 10 workers, 15 % had 10-30 workers and only 2% had above 30 workers. 89% of firms were proprietorship, 9% were partnership and the rest 2% were private limited companies. Out of surveyed firms 91% were located in urban area whereas 9% were located in semi-urban areas.

Table 5
Profile of Respondents

PROFILE OF RESPONDENTS	FREQUENCY	PERCENTAGE
OWNER PROFILE		
<i>Gender of owner</i>		
Male	51	63%
Female	30	37%
<i>Age of owner</i>		
Up to 30 years	4	4.9%
31 to 40 years	45	55.6%
41 to 50 years	27	33.3%
Above 50 years	5	6.2%
<i>Education level of owner</i>		
10	3	3.7%
10+2	35	43.2%
Graduate	41	50.6%
Post graduate	2	2.5%
UNIT PROFILE		
<i>Type of Unit</i>		
Micro	74	91%
Small	6	8%
Medium	1	1%
<i>Borrowing status</i>		
Borrowers	47	48%
Non-borrowers	34	52%
<i>Registration status</i>		
Registered Borrowers	18	22.2%
Registered non-borrowers	23	28.4%
Unregistered borrowers	29	35.8%
Unregistered non-borrowers	11	13.5%
<i>Age of business</i>		
Upto 5 years	35	43.8%

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5-10 years	32	40%
11-15 years	4	5%
Above 15 years	9	11.3%
Workers		
Upto 10	71	87.7%
11-30	9	11.1%
Above 30 workers	1	1.2%
Form of business		
Proprietorship	76	93.8%
Partnership	4	4.9%
Private limited company	1	1.2%
Location of business		
Urban	72	88.9%
Semi-urban	9	11.1%

6.2 Analysis

6.2.1 Registration Status Vs Satisfaction Status

It is believed that registration will help in easing credit procurement for the firm. Table 5 shows the cross-tabulated data for registration status and satisfaction with the amount of loan sanctioned for the borrowers.

Table 6
Cross- Tabulation of Registration of Unit and Satisfaction with Sanctioned Amount

		Whether satisfied with amount sanctioned		Total
		Yes	No	
Whether unit registered	Yes	13	5	18
	No	26	3	29
Total	39	8	47	

A chi-square test was done to check for association. The hypothesis formulated was as follows:

H_0 = There is no relation between registration status of firms and satisfaction with amount sanctioned as bank loans.

H_1 = There is a relation between registration status of firms and satisfaction with amount sanctioned as bank loans.

Table 7
Chi-Square Tests for Registration and Satisfaction

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	2.390a	1	.122		
Continuity Correction ^b	1.315	1	.252		
Likelihood Ratio	2.324	1	.127		
Fisher's Exact Test				.230	.127
Linear-by-Linear Association	2.339	1	.126		
N of Valid Cases	47				

a) 2 cells (50.0%) have expected count less than 5. The minimum expected count is 3.06.

b) Computed only for a 2x2 table

Since the p-value is more than 0.5, the null hypothesis cannot be rejected. It can be concluded that there is no relation between registration status and satisfaction with sanctioned loan amount.

6.2.2. Business Nature Vs Satisfaction Status

It is also believed that nature of business will help in easing credit procurement for the firm. Table 6 shows the cross-tabulated data for nature of business and satisfaction with the amount of loan sanctioned. For this analysis, two respondents who were into both manufacturing as well as service were excluded so that a chi-square test was possible.

Table 8
Cross-tabulation of Nature of Business and Satisfaction with Sanctioned Amount

		Whether satisfied with amount sanctioned		Total
		Yes	No	
Nature of business	Manufacturing	10	5	15
	Service	27	3	30
	Total	37	8	45

A chi-square test was done to check for association. The hypothesis formulated was as follows:

H_0 = There is no relation between nature of business and satisfaction with amount sanctioned as bank loans.

H_1 = There is a relation between nature of business and satisfaction with amount sanctioned as bank loans.

Table 9
Chi-Square Tests for Nature and Satisfaction

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	3.725a	1	.054		
Continuity Correction ^b	2.299	1	.129		
Likelihood Ratio	3.520	1	.061		
Fisher's Exact Test				.095	.068
Linear-by-Linear Association	3.642	1	.056		
N of Valid Cases	45				

a) 1 cell (25.0%) has expected count less than 5. The minimum expected count is 2.67.

b) Computed only for a 2x2 table

Since the p-value is more than 0.5, the null hypothesis cannot be rejected. It can be concluded that there is no relation between nature of business and satisfaction with sanctioned loan amount.

6.2.3 Weighted Average Scores of Likert Scales Statement-Wise

Statement-wise weighted score was calculated separately for difficulty level and satisfaction level using the following formula :

$$N(VL)*1+N(L)*2+N(M)*3+N(H)*4+N(VH)*5$$

Where,

N(VL) = No. of respondents selecting VERY LOW

N(L) = No. of respondents selecting LOW

N(M) = No. of respondents selecting MODERATE

N(H) = No. of respondents selecting HIGH

N(VH) = No. of respondents selecting VERY HIGH

Higher the weighted score, higher is the difficulty or satisfaction level associated with that statement.

Table 10
Level of Difficulty

Statement	Very Low	Low	Mode-rate	High	Very High	Weighted Score	Average Weighted Score
Loan application format	6	26	4	11	0	114	
Language used in application	5	29	7	6	0	108	
Time required to fill the application	4	29	5	7	2	115	
Details demanded in application format	5	25	8	8	1	116	
Relevance of details asked in the application	4	30	6	7	0	110	113.7
Enclosures to be furnished	4	26	8	9	0	11	
Certificates to be produced from legal authorities	4	25	8	9	1	119	
Time given to furnish the additional information	4	32	7	2	2	107	
Application processing time	3	30	6	5	3	116	
Application processing charges	4	30	7	4	2	111	
Legal fee attached with the procedure, if any	3	27	8	7	2	119	
Procedure of sanctioning the loan	1	35	9	1	1	107	
Time gap between submission and sanctioning	1	29	12	4	1	116	
Examination and review procedures	1	32	11	3	0	110	
Intimations by bank about disputes in approvals	1	29	13	4	0	114	111.8
Procedures for submitting clearance documents	1	35	5	5	1	111	
Procedure for collection of documentary evidences	1	34	9	2	1	109	

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Financial statements to be submitted	1	31	8	6	1	116	
Procedure for analysing credit worthiness	1	32	10	3	1	112	
Feasibility analysis procedures, if any	1	31	12	3	0	111	
Post sanction formalities	2	38	6	1	0	100	
Terms and conditions of loan	1	35	7	4	0	108	
Follow-up procedure with regard to sanctioning	1	35	10	1	0	105	
Procedure for calculation of interest amount	1	33	10	3	0	109	
Procedure of submission of updated business plan	2	34	9	2	0	105	104.6
Procedure for releasing of funds in instalments	1	38	6	1	1	104	
Monitoring the utilization of sanctioned amount	2	37	7	1	0	101	
Collateral security requirements	2	26	5	10	4	129	
Margin amount requirements	1	27	13	5	1	119	
Request for personal guarantor	1	32	8	5	1	114	
Type of assets accepted as collateral security	1	29	10	6	1	118	120.7
Valuation of assets produced as collateral security	0	29	11	5	2	121	
Documents as proof of assets provided as securities	1	28	7	10	1	123	
Documentation for repayment procedure	2	39	6	0	0	98	
Repayment reminders	2	37	6	2	0	102	
Release of security after repayment of loan	2	38	6	1	0	100	101.3
Terms and conditions for relaxation on repayment	3	31	12	1	0	105	

From Table 9, we conclude that security requirement is the area where highest level of difficulty was experienced by the borrowers, followed by application procedure,

pre-sanction, post- sanction and repayment procedure. The top five specific points of difficulty are :

- (i) Collateral / security requirement.
- (ii) Documentary evidence of asset based security.
- (iii) Valuation of asset based security.
- (iv) Certificate from legal authorities, legal fees, margin money.
- (v) Type of assets accepted as security.

The top specific points of where borrowers faced least difficulty are:

- (i) Documentation for repayment procedure
- (ii) Release of security after repayment of loan
- (iii) Post sanction formalities
- (iv) Monitoring the utilization of sanctioned amount
- (v) Repayment reminders.

Table 11
Level of Satisfaction

Statement	Very Low	Low	Mode- rate	High	Very High	Weighted Score	Average Weighted Score
Quantum of financial assistance	0	4	16	26	1	165	157.7
Ad-hoc increase in the sanctioned limit	0	3	23	19	2	161	
Rate of interest charge	1	12	15	18	1	147	
Tenure of the loan	0	5	17	24	1	162	
Repayment period for interest	0	7	14	25	1	161	
Repayment period for principal amount	0	4	18	24	1	163	156.3
Amount of relaxation on repayment offered	2	11	17	15	2	145	
Suggesting the right scheme for availing loans	3	3	19	21	1	155	
Support in the application procedure	1	1	18	26	1	166	
Information on available subsidies	1	11	18	16	1	146	

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Approach in loan sanction procedure	0	2	21	23	1	164	
Intimating about the new schemes	6	7	14	19	1	143	
Reminder about eligibility for additional loans	0	9	24	13	1	147	
Information on relaxations in repayment	2	9	16	19	1	149	
Information on reason for not sanctioning the loan	0	5	21	20	1	158	
Information on procedure for retaining documents	1	2	16	26	2	167	
Proving timely information	0	2	18	25	2	168	
Providing more appropriate and relevant information	0	4	15	23	5	170	
Prompt response	0	3	15	25	4	171	
Personal attention	2	21	13	10	1	128	
Awareness drives by banks	3	21	15	7	1	123	
Promotional drives by banks for inviting MSMEs	2	8	12	22	3	157	
Overall attitude of the bank towards MSME	0	5	19	20	3	162	
Discretion of the bank towards size of MSME	0	2	4	28	13	193	160.2
Maintaining customer confidentiality	0	9	13	21	4	161	
Institutional framework for grievance redressal	0	4	16	26	1	165	

From Table 10, we conclude that additional assistance offered by bank is the area where highest level of satisfaction was experienced by the borrowers, followed by terms of loan and staff support. The five specific points where customers were least satisfied are:

- (i) Awareness drives by banks.
- (ii) Personal attention by staff.
- (iii) New schemes intimation.
- (iv) Amount of repayment relaxation.
- (v) Information on available subsidies.

The top specific points of where borrowers were most satisfied are:

- (i) Discretion by bank towards size of MSMEs.
- (ii) Prompt response by staff.
- (iii) Relevant and appropriate information by staff.
- (iv) Timely information by staff.
- (v) Information on procedure of retaining of documents by staff.

6.2.4 Relationship between Difficulty Score and Amount Sanctioned

The difficulty score for each respondent was calculated as the total of score allotted to each statement under a section. The scores allotted were as follows Very Low = 1, Low = 2, Moderate = 3, High = 4 and Very High = 5. Using correlation tool of SPSS, the relationship between difficulty score for each section and amount sanctioned was analysed.

Table 12
Correlation Tests for Sanctioned Loan Amount and Difficulty Score

		Amount of loan sanctioned	Difficulty Score with applic- ation	Difficulty Score with pre- sanction	Difficulty Score with post- sanction	Difficulty Score with security	Difficulty Score with repay- ment
Amount of loan sanctioned	Pearson	1	.099	-.128	-.009	.203	.012
	Correl- ation Sig. (2-tailed)		.507	.392	.952	.170	.936
	N	47	47	47	47	47	47

The Pearson Correlation test gives us the conclusion that the correlation between difficulty scores and amount of loan sanctioned is not statistically significant.

6.2.5 Relationship between Satisfaction Score and Amount Sanctioned

The satisfaction score for each respondent was calculated as the total of score allotted to each statement under a section. The scores allotted were as follows Very Low = 1, Low = 2, Moderate = 3, High = 4 and Very High = 5. Using correlation tool of SPSS, the relationship between satisfaction score and amount sanctioned was analysed.

Table 13
Correlation Tests for Loan Amount and Satisfaction Score

		Amount of loan sanctioned	Satisfaction Score with loan terms	Satisfaction Score with staff support	Satisfaction Score with additional asst
Amount of loan sanctioned	Pearson Correlation	1	.061	.144	.129
	Sig. (2-tailed)		.685	.333	.388
	N	47	47	47	47

The Pearson Correlation test gives us the conclusion that the correlation between satisfaction scores and amount of loan sanctioned is not statistically significant.

6.2.6 Difficulty Level Experienced across Different Amount of Loans Availed

To study whether difficulty varies in accordance with the amounts of loan taken, the difficulty score as calculated in the previous sections were used. The difference between difficulty level across amount of loans availed was tested using ANOVA in SPSS. The hypothesis framed was as follows :

- H_0 = Difficulty scores do not differ significantly across amounts of loan availed.
- H_1 = Difficulty scores differ significantly across amounts of loan availed.

Table 14
Tests of Homogeneity

	Levene Statistic	df1	df2	Sig.
Difficulty Score with application	2.805	3	42	.051
Difficulty Score with pre-sanction	2.324	3	42	.089
Difficulty Score with post-sanction	1.355	3	42	.270
Difficulty Score with security	1.896	3	42	.145
Difficulty Score with repayment	.839	3	42	.480

Table 15
Results of ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Difficulty Score with application	Between Groups	265.825	4	66.456	.776	.547
	Within Groups	3596.388	42	85.628		
	Total	3862.213	46			
Difficulty Score with pre-sanction	Between Groups	58.416	4	14.604	.689	.604
	Within Groups	890.137	42	21.194		
	Total	948.553	46			
Difficulty Score with post-sanction	Between Groups	32.673	4	8.168	.464	.761
	Within Groups	738.731	42	17.589		
	Total		771.404	46		
Difficulty Score with security	Between Groups	130.727	4	32.682	1.62	.185
	Within Groups	842.380	42	20.057		
	Total	973.106	46			
Difficulty Score with repayment	Between Groups	7.425	4	1.856	.401	.807
	Within Groups	194.319	42	4.627		
	Total	201.745	46			

Since the p-values for all difficulty scores are more than 0.05, we cannot reject the null hypothesis. It can be concluded that difficulty scores do not differ significantly across amounts of loan availed. This indicates that the average difficulty scores do not vary significantly across various amounts of loan sanctioned.

6.2.7 Satisfaction Level Experienced across Different Amount of Loans Availed

To study whether satisfaction varies in accordance with the amounts of loan taken, the satisfaction score as calculated in the previous sections were used. The difference between satisfaction level across amount of loans availed was tested using ANOVA in SPSS. The hypothesis framed was as follows:

H_0 = Satisfaction score do not differ significantly across amounts of loan availed.

H_1 = Satisfaction score differ significantly across amounts of loan availed.

Table 16
Tests of Homogeneity

	Levene Statistic	df1	df2	Sig.
Satisfaction Score with loan terms	1.859	3	42	.151
Satisfaction Score with staff support	1.498	3	42	.229
Satisfaction Score with additional asst.	.425	3	42	.736

Table 17
Results of ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Satisfaction Score with loan terms	Between Groups	46.516	4	11.629	.570	.686
	Within Groups	856.974	42	20.404		
	Total	903.489	46			
Satisfaction Score with staff support	Between Groups	516.770	4	129.192	2.022	.109
	Within Groups	2683.188	42	63.885		
	Total	3199.957	46			
Satisfaction Score with additional asst.	Between Groups	55.862	4	13.966	.710	.590
	Within Groups	826.691	42	19.683		
	Total	882.553	46			

In Table 16, the Levene's test of homogeneity shows no significance and therefore the assumption of equality of variance is fulfilled. In Table 17, the ANOVA results show that since the p-values for all satisfaction scores are more than 0.05, we cannot reject the null hypothesis. It can be concluded that satisfaction scores do not differ significantly across amounts of loan availed. This indicates that the average satisfaction scores do not vary significantly across various amounts of loan sanctioned.

6.2.8 Non-Borrowers

Non-borrowers are those MSMEs which have never approached a bank for finance or got rejected after applying for a bank loan. The major reasons because of which MSMEs are not approaching the banks in spite of being unsatisfied with their current source of finance are mentioned in Table 21. It has been found that the leading reasons behind units not approaching the bank despite the need for institutional finance are lack of proper

collateral security, repayment burdens, perceived higher interest rates and documentation hassles.

Table 18
Business Nature of Non-borrowers

Nature of Business	No. of Respondents
Manufacturing	20
Service	14
Total	34

Table 19
Reasons for not Borrowing from the Bank

Reasons For Not Borrowing	No. of Respondents
Lack of assets to be provided as collateral security	16
Burden of repayment	12
High interest rate	12
Documentation required	9
No steady income	3
No awareness	2
Remote location, competitors, would not increase revenue	1
Time	1

7. Conclusion and Suggestion

From the study concluded we arrive at the following conclusions:

1. Registration status does have an influence over preference for bank loans. Satisfaction with sanctioned loan is not related with registration status (with DIC, KVIC or KVIB) or with the nature of business, i.e. whether it is a manufacturing or service unit. A study on the role of DICs in Thoothukudi District in Tamil Nadu has observed that business performances of sample SMEs' have significantly improved after approaching DIC for various kinds of assistances and their registration in DIC as a member (Sekar et al., 2013). However, in Kamrup district it has been observed that registration with DIC has not worked much to provide MSME borrowers a better borrowing experience in comparison to those who have not registered.
2. It was also seen that security requirement is the area where highest level of difficulty was experienced by the borrowers, followed by application procedure, pre-sanction,

post-sanction and repayment procedure. This result concurs with a study in Fiji by Reddy (2011), who also found that due to lack of adequate security MSMEs found difficulty in obtaining finance.

On the other hand, additional assistance by bank is the area where highest level of satisfaction was experienced by the borrowers, followed by terms of loan and staff support.

3. No statistically significant correlation was found between difficulty scores and amount of loan availed, or also between satisfaction scores and amount of loan availed. Average difficulty levels and average satisfaction levels were independent of loan amount. Past studies have shown that firms demanding smaller loan face more barriers as small firms with demand for smaller loans face higher transaction costs and face higher risk premiums since they are typically more opaque and have less collateral to offer (Beck and Kunt, 2006). The results of this study contradict the past findings.
4. From the analysis of non-borrowers, we found that the dominant reasons for not borrowing from banks are lack of assets as collateral security, burden of repayment, high interest rates and demands for security requirements. Out of total respondents 42% was non-borrowers. They were found to have either never approached a bank or were rejected for loan by bank.

From the study, it is evident that registration has not been able to assist the MSMEs in obtaining finance more easily. It implies that the Ministry of MSMEs have not been very effective in assisting the firms. Therefore, the DIC units need to be transformed in order to make them more effective. Also, since security requirement is found to be the most pressing impediment to both borrowers and non-borrowers, setting up of Bandhan and Mudra banks are good initiatives and it remains to be seen how far the MSMEs are benefitted from such steps by the government.

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