SUGGESTIONS AND CONCLUSION

6.1 SUGGESTIONS

An attempt has been made to suggest suitable measures on the basis of the findings for addressing the finance gap existing between Commercial Banks and Micro, Small and Medium Enterprises and to improve flow of credit to SME sector.

- The study finds that the finance gap existing in Karnataka is due to wrong perception between the two sectors on each other. Commercial Banks feel that it is risky, cost of serving this sector is high and NPA of banks are high due to lending to this sector, which is statistically not significant. Whereas SME sector has a perception that Commercial Banks are not approachable, there exists lengthy procedure and it is difficult to access finance. The study finds that those SME respondents who approached bank for their financial requirement are satisfied with the bank lending services. Thus, there exists perceptual gap between Commercial Banks and Micro, Small and Medium Enterprises. This perceptual gap can be reduced by building relationship between these two sectors. Regular interaction with SME clients can build up confidence in commercial bank extends lending services. Further, such interactions can also motivate Micro, Small and Medium enterprises to approach without any hesitation. The Commercial Banks need to give weightage to relationship lending along with transaction based lending.

- Lack of demand is one of the major reasons for finance gap in Karnataka. Out of 325 respondents only 146 have approached banks for their financial requirements, whereas 179 representing 55% have excluded themselves from availing bank lending services. In order to reduce the finance gap, it is necessary that SMEs need to approach banks for their financial requirement. The study finds that those SMEs who have applied for bank finance have a better perception over self-supported SME’s. Therefore, the basic step to be taken towards addressing the finance gap is financial inclusion of SME’s for bank lending services. Hence Government has to direct RBI to undertake financial inclusion programme for SMEs specifically for lending services.

- The respondents who have availed finance have identified the factors which can increase their satisfaction in relation to access to bank finance viz., Instant
support and facilities. These factors should be taken care of by the banks. A satisfied customer acts as a brand ambassador for bank lending services and can create demand by clarifying misconception about the perceived problems of accessing bank finance. Awareness is created only by word of mouth by a satisfied SME client and there is no need for additional efforts to market the bank lending services. Therefore, RBI needs to mandate banks to consider these factors while processing the loan request.

- The existence of finance gap is not uniform across Micro, Small and Medium Enterprises. Therefore, existing SME financing policy directives may not be effective in addressing the finance gap. Financing programmes for SMEs have to be sector specific and there is a need to address those enterprises affected by finance gap apart from the rest and for any support there should be a very clear phase out horizon. RBI should insist and facilitate Commercial Banks to adopt tailored business and delivery models.

- One of the reasons for financial exclusion disclosed by bank is commercial viability, strong financials and financial system of SMEs. There arises the need for bringing SMEs to the expectations of banks so that banks will have no issues in lending to this sector. Financial information system should improve for SMEs. This involves a proper accounting system which has to assure adequate disclosure of financial information. Therefore there is a need to formulate policies which can provide support system for SMEs to build up their skill base and business plan writing.

- Lending by Commercial Banks to SMEs is under priority sector which is part of social objective. RBI has made it mandatory to achieve the target lending for priority sector, which even today many banks are not able to achieve. The respondents of the study strongly agree that the driving factor for lending is the social objective and has felt the social and political pressure exist in recovery of loans. According to RBI, lending to priority sector is not a charity but preference should be giver over other sectors. To remove the misconception of priority sector it is advisable to remove SMEs from priority sector lending, so that banks can get a free hand in deciding the credit granting procedure.
- The study finds that the sample respondents have better growth plans for their future operations and majority of the respondent enterprises are performing well in terms of capital, profits and in terms of employment. There has been a change in the highest education level of the respondents and awareness about the source of finance, loan products and services offered by different sources of finance. Micro, Small and Medium Enterprises are creating a wide opportunities for financial institutions to expand their market in terms of lending. There is a need for Commercial Banks to identify the potentiality of this sector and make use of the opportunity to serve this market rather than serving this sector as priority as per guidelines. Like any other lending portfolio of banks, even lending to this sector can be more profitable if it is handled separately. Awareness regarding potentiality of serving this sector has to be created amongst Commercial Banks.

- Majority of the bank respondents use mass media for communicating the loan products, schemes and other information about the sector. Use of this mode of communication may not reach all the prospective SME clients. The study finds that 96% of the sample respondents of Micro, Small and Medium Enterprises get any business information through their personal business contacts. Therefore the Commercial Banks should communicate the information to the existing clients and through business association of Micro, Small and Medium Enterprises.

- Based on the findings, it is evident that majority of the SME respondents are doing and prefer to do their normal and business finance related transaction with Public Sector banks. Therefore RBI needs to encourage, facilitate and support Public sector banks in contributing to the development of this sector. RBI needs to formulate policies which support Public Sector Banks to concentrate more on this sector. The RBI need to direct Private Sector and Foreign Banks to create a supportive environment for lending to this sector. Combined efforts of all commercial can reduce high financial exclusion of this sector from bank financing.

- Special efforts need to be taken by Commercial Banks in lending to this sector under CGTMSE. The study finds that majority of the bank respondents have opted for financing this sector under CGTMSE. But more than 80 percent of the respondents of Micro, Small and Medium enterprises are not aware of this scheme. This information gap can be reduced by giving information and details of the scheme
to the loan applicants by Commercial Banks. During interaction with the senior managers of respondent banks the researcher also finds that too many complication and technicalities are involved in financing this sector under CGTMSE. Therefore, Government has to simplify the procedure to implement CGTMSE scheme.

- The majority of the bank respondents have stated that, lack of infrastructure, shortage of staff and adequate training to handle this sector is critical obstacles in dealing with this sector. This fact is true and is confirmed during field survey by the researcher. In some of the SME specialized branches of bank respondents, there were no staff to deal with this sector specifically and it was handled by the staff dealing with normal banking transactions. It was also found that, some of the SME specialized branches were headed by those who had no experience of handing this sector. Therefore, it is required to provide adequate infrastructure and staff trained to serve this sector to Commercial Banks.

- Another important issue need to be addressed by the authorities is the issue of collateral. The study finds that lack of acceptable collateral is one of the factor responsible for rejection of loan proposal (Mean Value = 3.52 and Sig Value 0.00). The SME respondents have identified collateral as one of the obstacle in accessing bank loan (Mean Value 3.77).

In spite of RBI directions to lend collateral free loan to this sector, it is found that bank authorities are insisting on collateral. RBI needs to ensure that bank authorities are following the guidelines strictly.

- Major concern for SME respondents to access bank finance is the rate of interest. They feel that RBI needs to reduce the rate of interest and facilitate for timely sanction of the loan. Majority of the SME respondents have expressed the same concern in the survey. The inferences drawn from the analysis of secondary data on the rate of interest, it is clearly evident that the rate of interest charged to this sector by the commercial Banks is comparatively high. Therefore, the Reserve Bank of India has to prioritize on reducing rate of interest to motivate SMEs to approach commercial Banks for their business financial needs.

- To overcome the perception of risk, high cost of lending and information asymmetry, Government can look into the possibilities of bringing market based
banking to SME sector lending to the extent possible. OECD in its survey report on SME finance gap has suggested for market based banking for addressing Bank SME finance gap. Under market based banking, loans have to finance through bank borrowing and not by out of customer deposits. It also provides an option of hedge the risk, transfer of perceived risk from the originating banks to capital market or collaboration between creditworthy financial institutions. Market based banking model applied to the extent feasible for Indian market under strict regulation, may help in wiping out the finance gap in a long run.

6.2 CONCLUSION

Small and Medium Enterprises play an important role in the development of the Indian economy. However, their growth is often hampered by the limited access to finance. The availability of bank credit to industry is a subject matter of regulation and control. The overall regulation is in the hands of RBI. Government of India has also introduced various policy measures to protect and promote SMEs. The efforts of providing adequate finance to the neglected sector of the economy began in 1968 and a tireless effort is still going on even today. Access to credit by this sector has improved over the time but the problem continues to persist in spite of the fact that lending to this sector comes under the supervision of RBI guidelines. Many deliberations have been done in Foreign Countries to address the finance gap. Not many initiatives have been taken in in India to address this problem. In fact the concept of finance gap is not a familiar concept in India, though SMEs continue to suffer from inadequate and timely access to credit from financial institutions and capital markets. The present study attempts to address this problem by adopting a different approach. Mismatch between supply and demand for finance is the concept of finance gap. The existence of finance gap can be either on account of supply side or due to demand side.
The term finance gap refers to the difference between supply and demand for funds. This study aims to address the difference that exists between supply of finance by Commercial Banks and demand for finance by SMEs operating in Karnataka.

Review of earlier literature reveals the factors responsible for the finance gap in the respective area of study between Commercial Banks and SMEs. According to literature risk perception, NPA, high cost of serving and information asymmetry are the contributing factors for finance gap from supply side.
Need for finance, problems in accessing finance and perception on bank lending services are the contributing factors for financing gap from demand side.

The factors which are normally contributed to finance gap which are identified through literature review are not statistically significant in the context of Karnataka. The study finds that there exists perceptional gap between Commercial Banks and Micro, Small and Medium Enterprises in Karnataka.
The study identifies the factors responsible for finance gap in Karnataka. To address the problem of finance gap, Government need to support SMEs in terms of building strong financials, preparation of good business plan and enhance their managerial skills. There is a need to support Commercial Banks in easing the credit flow to this
sector by providing adequate infrastructure and relation of rigid guidelines for lending to this sector.

The Government has to facilitate a favorable environment and act as a supportive force for Commercial Banks rather than acting as a controller or regulator. Commercial Banks should be encouraged to open more specialized branches to handle SME finance, which can give personal touch to the services offered to this sector than clubbing with general banking transactions. However, banks should volunteer to provide lending services realizing the importance of SMEs to the Indian economy. At the same time, receiver of the benefit i.e. SMEs need to gear up themselves to the expectations of the lender and be prompt in repaying the loan borrowed from banks.

The stakeholders of SME finance viz., Regulating authorities, Banks and SMEs need to take individual and collective responsibility of overcoming the problem of finance gap, which in turn affects the economy as a whole. Present study makes an attempt to address the issue by analyzing the problem from the perspective of supplier of finance and demand for finance. The study finds that the finance gap which exists in Karnataka is mainly perceptional gap between banks and SMEs. The perceptional gap has resulted in high financial exclusion. Karnataka is known as the cradle of banking and provides a strong base for industrial development. In this sense, appropriate policy measures can definitely reduce the perceptional gap and enhance credit flow to this sector in future.

**SCOPE FOR FUTURE RESEARCH**

This study has given some more leads for further research in this area. This study primarily focused on addressing the problem of debt finance gap existing in Karnataka. A similar study may be conducted in other states in India. A study can be further extended to addressing the equity finance gap. In this study the major Commercial Banks operating in the state are examined from the supply side. A similar study can be made by taking up other commercial banks operating in Karnataka too.