ABSTRACT

Micro, Small and medium enterprises across the world, including India are the vehicles for sustainable and overall inclusive growth. In India Small & Medium enterprises contribute nearly 8% of countries’ GDP, 45% of the manufacturing output and 40% of the exports. They provide largest share of employment after agriculture in India. In India, Micro, Small and Medium sector is a founding pillar of its socio-economic framework. Although SME sector has been growing at a faster rate than overall industrial sector, they experience multiple constraints which is hindering their growth. Various research studies right from conceptualization of bank credit to SMEs have been analyzing and suggesting various measures to improve flow of credit to the vibrant sector of Indian economy, but even today the same situation persist. The International Finance Corporation and Government of Japan have made an assessment of SME finance gap in India. The overall finance gap of INR 20.9 trillion, split in to Debt gap of INR 19 trillion & Equity gap of INR 1.9 trillion. The study has also identified the viable and addressable finance gap in Karnataka as a part of rest of India in its study to be 0.91 trillion. The statistics compiled in fourth census of Micro, Small and medium enterprises sector revealed that only 5.18% of the units (both registered &unregistered) had availed finance through institutional sources and 2.05% had finance from non-institutional sources. There exists high financial exclusion of this sector from formal institutional sources, including commercial banks. Problems faced by Micro, Small and medium enterprises in accessing funds is gathered under the concept of Finance Gap. Hence it is necessary to examine the issue of non-availability of adequate & timely credit to SMEs. Any study to resolve this problem made from one side i.e. either on SMEs perspective or on commercial bank perspective would be incomplete. Therefore there is a need to analyze this issue from both the perspective which in turn can provide commercial banks wide opportunities and also make significant contribution to this sector in their growth & development. The problem is stated as “A STUDY OF FINANCE GAP BETWEEN COMMERCIAL BANKS AND MICRO, SMALL AND MEDIUM ENTERPRISES WITH REFERENCE TO KARNATAKA”.

The objective of the study is to identify the factors responsible for finance gap, extent of finance gap across Micro, Small and Medium enterprises and to assess the impact of finance gap on this sector in Karnataka. Convenient method of sampling is used for selecting the respondents for the study. After pilot study the final questionnaire was administered to 325
Micro, Small and Medium enterprises and 25 Specialized SME branches of seven major banks operating in Karnataka.

Factor analysis was used to identify the factors responsible for accessing credit from banks and Correlation analysis, Regression, Chi square, t-test & ANOVA statistical tools were used to test the hypotheses. The findings of the study show that the factors contributing to finance gap are Instant support, Reliability, Customer centric, Relationship and facilities. Amongst these factors, Instant support & Facilities by commercial banks can enhance the satisfaction of Micro, Small and Medium enterprises and thereby reduce the finance gap. The study also finds that, Micro manufacturing sector is most affected by finance gap and access to bank finance would contribute for the long run growth and development of Micro, Small and Medium enterprises in Karnataka. From the commercial banks point of view, risk, NPA, cost of lending and information asymmetry are the factors which contribute to finance gap proved statistically insignificant. From Micro, Small and Medium enterprises point of view, documentation, slow processing and perception on bank lending services are not statistically significant. Thus, the existence of finance gap is due to wrong perception of each sector on another. This has resulted in lack of demand for bank credit from Micro, Small and Medium enterprises. Out of 325 sample respondents from Micro, Small and Medium enterprises only 146 respondents constituting 45 percent have approached commercial banks for their business financial needs. Majority of the respondents constituting 55 percent have never approached commercial banks. Those respondent enterprises that have approached commercial banks have experienced better lending services. Karnataka is known as cradle of banking and provides a strong base for industrial development. Financial inclusion of Micro, Small and Medium enterprises for lending services, separation of general banking services with lending services and considering the factors identified in the study can reduce the perceptional gap and enhance credit flow to this sector in future.