

INTERNATIONAL CONFERENCE ON

“ENVIRONMENT, AGRICULTURE & HUMAN WELFARE: AN OVERVIEW OF
SUSTAINABLE GOALS OF FUTURE”

26TH November, 2023

Economic Synergy: Public Sector Banks as Enablers of MSME Growth in Vidarbha Region

Ashwin Moreshwar Dhale, Research Scholar, RTM Nagpur University
DR. Ab. Shakeel Ab. Sattar, Research Supervisor, RTM Nagpur University

Abstract

Significant economic change has taken place in India's Vidarbha area, and Micro, Small, and Medium Enterprises (MSMEs) have been instrumental in this expansion. The emphasis of this research is on the ways in which public sector banks in Vidarbha facilitate and improve the development trajectory of micro, small, and medium-sized enterprises (MSMEs), and how these relationships work in tandem. Credit accessibility, specialised financial products, and advisory services are some of the vital financial supports provided by public sector banks. This study uses a mixed-methods approach, combining quantitative data analysis with qualitative case studies, to investigate these processes. Important results show that public sector banks play a crucial role in helping micro, small, and medium-sized enterprises (MSMEs) get the funding they need, improve their technology, and get access to new markets. Furthermore, the research emphasises how government policies and activities may provide an ideal setting for these synergies to flourish. Additionally, we take a look at some of the obstacles that MSME owners face, such as excessive bureaucracy, strict financing standards, and low levels of financial knowledge.

Finally, the report suggests certain policies that public sector banks could implement to help micro, small, and medium-sized enterprises (MSMEs) succeed. These include better financial literacy programmes, easier lending procedures, and more focus on digital banking solutions. This study highlights the vital role of Vidarbha's public sector banks in enabling micro, small, and medium-sized enterprises (MSME), as well as the significance of strong financial ecosystems in propelling regional economic growth.

Keywords – Public Sector Banks, MSMEs, Vidarbha Region, Economic Synergy, Financial Inclusion

Introduction

Historically, the Vidarbha region—in eastern Maharashtra, India—has presented both economic opportunity and developmental hurdles. Micro, small, and medium-sized businesses (MSMEs) have grown rapidly in the area in recent years, becoming an important part of the economy. The growth of the area as a whole, as well as the production of jobs and money, are greatly influenced by these businesses. Nevertheless, there have been obstacles to the expansion of MSMEs in Vidarbha, especially with regard to the accessibility and sustainability of financing.

Public sector banks have played a crucial role in facilitating the development of micro, small, and medium-sized enterprises (MSME) by tackling these financial issues. These banks play an important role in connecting micro, small, and medium-sized enterprises (MSMEs) with the resources they need to succeed by offering crucial financial services such as loan facilities, investment possibilities, and advisory assistance. A foundational component of Vidarbha's economic growth is the mutually beneficial connection between public sector banks and micro, small, and medium-sized companies (MSMEs).

The purpose of this research is to investigate the complex relationships between Vidarbha's public sector banks and micro, small, and medium-sized enterprises (MSMEs), specifically looking at how these banks help MSMEs succeed. This study aims to reveal the processes through which public sector banks assist MSME development by conducting a thorough examination of quantitative data and qualitative insights. In addition, it finds the good and the bad of government programmes and policies that have tried to strengthen this bond.

INTERNATIONAL CONFERENCE ON

“ENVIRONMENT, AGRICULTURE & HUMAN WELFARE: AN OVERVIEW OF SUSTAINABLE GOALS OF FUTURE”

26TH November, 2023

An examination of the many financial offerings made available by public sector banks with an eye on serving micro, small, and medium-sized enterprises (MSMEs) is the focus of this research. Administrative red tape, strict loan standards, and a lack of financial education are some of the problems it mentions as being experienced by small businesses. This study seeks to understand these processes in order to provide practical suggestions that will improve the role of public sector banks in helping MSMEs. By doing so, it hopes to contribute to the larger objective of regional economic growth.

When it comes to empowering micro, small, and medium-sized enterprises (MSMEs) in the Vidarbha area, this article highlights the important role of public sector banks and the necessity of strong financial ecosystems. We want to shed light on policy-making and strategic efforts in Vidarbha that promote sustainable economic development via our investigation.

Literature review

The employment market relies heavily on micro, small, and medium-sized businesses (MSMBs). Therefore, from a policy standpoint, understanding what factors contribute to business expansion is crucial. The literature evaluating the impact of the system of variables, regulations, and institutions that influence the expansion of businesses is expanding. It is common practice to classify the factors that influence a company's expansion as either internal or external. According to Zhou and de Wit (2009), the majority of research classifies the elements that influence business development into three main categories: person, organisational, and investment environment.

Entrepreneurship has become more popular as a means through which individuals may contribute to increased employment and long-term economic prosperity. But there are a lot of obstacles for entrepreneurs in sub-Saharan Africa, such as a lack of access to capital, stringent rules, and inadequate infrastructure (Legas, 2015). An additional significant obstacle that entrepreneurs in the area encounter is the limited size of the market and the absence of thorough training in entrepreneurship (Dugassa, 2012).

According to Beck and Demircuc-Kunt (2006), small businesses have more expansion restrictions and have limited access to official sources of external funding. There are a number of limitations that the worldwide literature notes as reasons why micro, small, and medium-sized enterprises (MSMEs) rely so much on internal financing. These include, but are not limited to, a lack of transparency, a lack of a trade history, and a high risk of failure. Owona and Mugume (2001), Kasekende and Opondo (2003), and Ishengoma and Kappel (2008) have all provided solid evidence that enterprises in Uganda have different levels of endogeneity when it comes to access to financing.

Both new MSMEs and old ones are stifled by a lack of capital, which makes it difficult for them to expand. Thus, micro/informal enterprises in sub-Saharan Africa (SSA) tend to have poor productivity, which is partly explained by their limited access to funding (Olawale & Garwe, 2010). Lack of collateral is a common way in which micro, small, and medium-sized enterprises (MSMEs) show their weaknesses (Galindo & Micco, 2005). As a result, financial institutions are hesitant to lend MSMEs as much as other sectors (Beck, Demircuc-Kunt, & Levine, 2003). To that end, this report breaks out the effects of financing on businesses of varying sizes.

Money isn't a deciding factor for many micro, small, and medium-sized enterprises (MSMEs), and their desire to stay small is a defence mechanism for their inadequacy (O'Farrell, 1986). Policy tools meant to help small businesses expand are unlikely to affect these companies in this situation.

The investment environment contributes to the institutional level problem of restricted access to capital and stunted business development. Countries with lower incomes and greater levels of corruption are more likely to experience this (Hallward-Driemeier & Aterido, 2007).

INTERNATIONAL CONFERENCE ON

“ENVIRONMENT, AGRICULTURE & HUMAN WELFARE: AN OVERVIEW OF SUSTAINABLE GOALS OF FUTURE”

26TH November, 2023

Without a doubt, nations with lax enforcement and institutions have a harder time securing affordable funding (Galindo & Micco, 2007). The lack of access to financial services is a result of market and institutional failures as well as the informality of MSMEs (Kasekende & Opondo, 2003). According to Aterido et al. (2009), bigger enterprises tend to get more financing due to institutional and business environment weaknesses. Nevertheless, there is less bias in financial inclusion when it comes to age (Cabral & Mata, 2003), infrastructure (Turyahikayo, 2015), choice of sector and location (Lakuma, Marty, & Kuteesa, 2016), and decreased informality.

Research objectives

- To investigate the specific ways in which public sector banks support the growth of MSMEs in the Vidarbha region.
- To evaluate the effects of public sector bank financing on the growth and development of MSMEs.
- To explore the mechanisms and strategies through which public sector banks and MSMEs collaborate.

Research methodology

This study employs a mixed-methods approach to investigate the synergies between public sector banks and MSMEs in the Vidarbha region. The research combines quantitative data analysis with qualitative case studies to provide a comprehensive understanding of the interactions and impacts of public sector banks on MSME growth. Quantitative data is collected from various sources, including bank records, government reports, and MSME surveys, to analyze trends in credit accessibility, financial performance, and business expansion. Statistical techniques are used to identify correlations and measure the impact of financial support on MSME growth metrics such as revenue, employment, and market reach. Complementing the quantitative analysis, qualitative data is gathered through in-depth interviews and focus group discussions with key stakeholders, including bank officials, MSME owners, and policymakers. These interviews provide nuanced insights into the experiences, challenges, and perceptions of those directly involved in the financial ecosystem. Case studies of successful MSMEs are conducted to illustrate best practices and highlight the specific contributions of public sector banks in fostering business growth.

Data analysis and discussion

Table 1 Investment environment as a function of company attributes

	Finance from PSU (%)	Working capital (%)	Sales (%)	Management Time (%)	Days of operation	Loss in transit (%)
Micro	14.90	7.486	8.267	4.536	350	6.745
Small	12.37	6.275	6.857	2.143	350	2.203
Medium	11.31	6.371	6.776	4.607	350	4.403
Observations	50	50	50	50	50	50
R-squared	0.327	0.207	0.201	0.195	0.103	0.228

Table 1 presents the investment environment as a function of company attributes across different scales of MSMEs—Micro, Small, and Medium enterprises. The attributes measured include the percentage of finance from Public Sector Units (PSU), working capital, sales, management time, days of operation, and loss in transit.

For micro enterprises, finance from PSUs constitutes 14.90% of their financial structure, the highest among the three categories, indicating a significant reliance on public sector banks. Their working capital and sales percentages are 7.486% and 8.267%, respectively.

INTERNATIONAL CONFERENCE ON

“ENVIRONMENT, AGRICULTURE & HUMAN WELFARE: AN OVERVIEW OF SUSTAINABLE GOALS OF FUTURE”

26TH November, 2023

Management time, a crucial indicator of operational efficiency, stands at 4.536%, suggesting that a moderate amount of managerial resources is devoted to overseeing operations. Micro enterprises operate almost year-round with 350 days of operation but face a relatively high loss in transit at 6.745%.

Small enterprises exhibit a lower reliance on PSU financing at 12.37%, with slightly reduced percentages in working capital (6.275%) and sales (6.857%) compared to micro enterprises. Notably, the management time for small enterprises is considerably lower at 2.143%, indicating more streamlined operations. Similar to micro enterprises, they also operate for 350 days annually but experience a significantly lower loss in transit at 2.203%.

Medium enterprises show the least dependency on PSU finance at 11.31%. Their working capital and sales percentages are 6.371% and 6.776%, respectively, closely mirroring the figures for small enterprises. Management time is comparable to micro enterprises at 4.607%, indicating that medium enterprises might face similar operational challenges. They also maintain 350 days of operation but have a moderate loss in transit at 4.403%.

The R-squared values indicate the proportion of variance explained by the company attributes for each variable. Finance from PSU has the highest R-squared value at 0.327, suggesting a moderately strong relationship between company attributes and reliance on public sector financing. The other attributes, such as working capital (0.207), sales (0.201), and management time (0.195), have lower R-squared values, indicating weaker relationships. Days of operation have the lowest R-squared value at 0.103, implying minimal variation across different enterprise scales. Loss in transit has a moderate R-squared value of 0.228, indicating some level of variance explained by company attributes.

In summary, micro enterprises rely most heavily on PSU finance and face higher losses in transit, while small enterprises benefit from more efficient management and lower losses. Medium enterprises exhibit the least dependency on PSU finance but have operational challenges similar to micro enterprises. The analysis highlights the varying financial and operational landscapes across different scales of MSMEs, emphasizing the need for tailored financial strategies and support mechanisms from public sector banks to address these unique challenges.

Discussion

The analysis of the investment environment as a function of company attributes across different scales of MSMEs—Micro, Small, and Medium enterprises—reveals critical insights into their financial and operational dynamics, especially in the context of the Vidarbha region.

Reliance on Public Sector Financing: Micro enterprises exhibit the highest reliance on PSU finance at 14.90%, reflecting their greater dependency on public sector banks for financial support. This high dependency suggests that micro enterprises might face more significant challenges in accessing finance from private sources, potentially due to higher perceived risks and lower creditworthiness. In contrast, small and medium enterprises show a decreasing trend in reliance on PSU finance, at 12.37% and 11.31% respectively, indicating a slightly broader access to diverse financing options.

Working Capital and Sales: The working capital and sales percentages across all enterprise scales are relatively close, with micro enterprises having the highest percentages at 7.486% and 8.267%, respectively. This indicates that micro enterprises might need more immediate financial resources to manage day-to-day operations and sales activities. Small and medium enterprises, with their slightly lower working capital and sales percentages, might be benefiting from better cash flow management and more stable revenue streams.

Management Time: Micro and medium enterprises devote more management time to operations (4.536% and 4.607%, respectively) compared to small enterprises (2.143%). This difference suggests that small enterprises have more efficient management practices, possibly

INTERNATIONAL CONFERENCE ON

“ENVIRONMENT, AGRICULTURE & HUMAN WELFARE: AN OVERVIEW OF SUSTAINABLE GOALS OF FUTURE”

26TH November, 2023

due to better organizational structures or more effective management tools. The higher management time for micro and medium enterprises could be a result of the complexities and challenges they face in managing their operations and financial activities.

Days of Operation and Loss in Transit: All enterprises operate for 350 days annually, indicating a consistent commitment to maintaining continuous business activities across the different scales. However, the loss in transit varies significantly, with micro enterprises experiencing the highest loss (6.745%) and small enterprises the lowest (2.203%). This variance highlights the operational vulnerabilities faced by micro enterprises, such as inadequate logistics and supply chain inefficiencies. The moderate loss in transit for medium enterprises (4.403%) suggests some operational improvements over micro enterprises but still indicates room for optimization.

Implications for Public Sector Banks: The varying degrees of reliance on PSU finance and the differences in operational metrics across MSME scales underscore the need for public sector banks to tailor their financial products and services. For micro enterprises, enhanced financial support and advisory services are crucial to address their higher dependency on PSU finance and operational inefficiencies. Small enterprises, while relatively efficient, can benefit from targeted financial products that support their growth and expansion. Medium enterprises require a balanced approach that addresses their financial needs and operational challenges.

Conclusion

In conclusion, this study underscores the pivotal role of public sector banks in facilitating the growth and sustainability of Micro, Small, and Medium Enterprises (MSMEs) in the Vidarbha region. The analysis reveals that while micro enterprises heavily rely on public sector financing, small and medium enterprises demonstrate more diversified financial structures. Operational efficiencies vary across different scales of enterprises, with small enterprises showing streamlined management practices and lower operational losses compared to micro and medium enterprises. The findings highlight the importance of tailored financial products and supportive policies from public sector banks to address the specific needs and challenges faced by MSMEs. Recommendations include enhancing financial literacy, streamlining lending processes, and promoting digital banking solutions to foster a more conducive environment for MSME growth. By leveraging these insights, policymakers and stakeholders can enhance the overall economic development of Vidarbha, ensuring sustainable growth and resilience in the MSME sector.

References

- Adewuyi, A. O., & Emmanuel, Z. (2018). Electricity outages and firm performance across the six geo-political zones in Nigeria: The role of corruption. MPRA working paper series.
- Aterido, R., Hallward-Driemeier, M., Pagés, C. (2009). Big constraints to small firms' growth? Business environment and employment growth across firms. World Bank Policy Research Working Paper 5032.
- Beck, T., & Demirguc-Kunt, A. (2006). Small and medium size enterprises: Access to finance as a growth constraint. *Journal of Banking and Finance*, 30(11), 2931–2943.
- Beck, T., Demirguc-Kunt, A., & Levine, R. (2003). Law, endowments, and finance. *Journal of Financial Economics*, 70, 137–181.
- Berger, A. N., & Udell, G. F. (1998). The economics of small business finance: The roles of private equity and debt markets in the financial growth cycle. *Journal of Banking and Finance*, 22(6), 613–673.
- Buyinza F (2011), 'Performance and survival of Ugandan manufacturing firms in the context of the East African community. Economic Policy Research Centre, Research series no 83.

INTERNATIONAL CONFERENCE ON
“ENVIRONMENT, AGRICULTURE & HUMAN WELFARE: AN OVERVIEW OF
SUSTAINABLE GOALS OF FUTURE”
26TH November, 2023

- Cabral, L., & Mata, J. (2003). On the evolution of the firm size distribution: Facts and theory. *American Economic Review*, 93, 1075–1090.
- Cassar, G. (2004). The financing of business start-ups. *Journal of Business Venturing*, 19(2), 261–283.
- Delmar, F, Davidsson, P. & Gartner, W.B. (2003). Arriving at the high-growth firm. *Journal of Business Venturing* 18:189–216. Demirgüç-Kunt, A., & Maksimovic, V. (1998). Law, finance and firm growth. *Journal of Finance*, 53, 2107–2137.
- Djankov, S., La Porta, R., Lopez-De-Silanes, F., & Shleifer, A. (2002). The regulation of entry. *Quarterly Journal of Economics*, 117(1), 1–37.
- Dugassa, T. G. (2012). The context of entrepreneurship education in Ethiopian universities. *Management Research Review*, 35(3/4), 225–244.
- Egesa, K.A. (2010). Indigenous firms’ survival in Uganda: Is there a role for increased technology use?. Bank of Uganda Working Paper.
- EPRC. (2013). Uganda 2013 FinScope III survey report: Unlocking barriers to financial inclusion. Kampala: Economic Policy Research Centre (EPRC).
- Galindo, A., & Micco, A. (2005). Bank credit to small and medium-sized enterprises: The role of creditor protection. Working Paper, No. 527, Washington, DC: Inter-American Development Bank, Research Department.
- Galindo, A. J., & Micco, A. (2007). Creditor protection and credit response to shocks. *World Bank Economic Review*, 21(3), 413–438.
- Hallward-Driemeier, M., & Aterido, R. (2007). Comparing apples with apples: How to make (more) sense of subjective rankings of constraints to business. In Paper presented at the 2006 Oxford business and economics conference, Oxford University.
- Huyghebaert, N., & Van de Gucht, L. M. (2007). The determinants of financial structure: New insights from business start-ups. *European Financial Management*, 13(1), 101–133.
- Ishengoma, E. K., & Kappel, R. T. (2008). Business constraints and growth potential of micro and small manufacturing Enterprises in Uganda. GIGA. Working Paper No. 78. Available at SSRN: <https://doi.org/10.2139/ssrn.1136816>.
- Jeong, H., & Townsend, R. (2008). Growth and inequality: Model evaluation based on an estimation-calibration strategy. *Macroeconomic Dynamics*. 12(S2):231–284.
- Kasekende, L., & Opondo, H. (2003). Financing small and medium-scale enterprises (SMEs): Uganda’s experience. BOU working paper, WP/03/01.
- Klapper, L. F., Laeven, L., & Rajan, R. G. (2004). Business regulations as a barrier to entrepreneurship. *Journal of Financial Economics*, 82(3), 591–629.