EVALUATION OF ACCESS TO FINANCE FOR MICRO ENTERPRISES IN MADHYA PRADESH

ATAL BIHARI VAJPAYEE INSTITUTE OF GOOD GOVERNANCE AND POLICY ANALYSIS

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Table of Content

Acknowledgement 1

Executive Summary 8

Introduction 19

Status of Micro Enterprises in MP 20

Financial Institutions in MP 21

Formal Financial Institutions 22

Informal Financial Institutions 23

Apex Financial Institutions 24

Existing Schemes and Policies for Access to Finance 26

Central Govt. Schemes 26

State Govt. Schemes 31

Key Statistics of Centre/State Govt. Schemes in MP 33

Literature Review 35

Why This Study 38

Objective of the Study – Demand Side 39

Objectives of the Study – Supply Side 39

Methodology 40

Sampling 40

Data Collection 40

Questionnaire Design and Pilot Testing 42

Data Analysis 42

Limitation of the Study 43

Results and Discussion – Demand Side 44

Descriptive Analysis 44

Urban-Rural Spread 44

Entrepreneur Profile 44

Enterprise Profile 45

District Wise Profile 59

Rural-Urban Spread 59

Age Composition 60

Category Composition 60

Education Qualification Composition 61

Sector Composition 61

Activity Composition 62

Premise Ownership 63

Regulatory Compliance & Registration 63

Documentation 64

Capital Composition 65

Inventory Composition 65

Types of Accounts 66

Requirement of Loan 67

Extent of Loan Requirement 68

Loan Status 68

Sources of Loan (Formal) 69

Sources of Loan (Informal) 69

Access to Finance Challenges 70

Factors Affecting Access to Finance 71

Impact on Access to Finance 76

Cluster Analysis 79

Psychographic Analysis of Clusters....80
Demographic Analysis of Clusters....81
Discussion on Cluster Analysis....87
Discussion – Supply Side Analysis....89
Thematic Analysis....89
Network Analysis....94
Challenges of Financial Institutions in Serving Micro Enterprises....95
Major Challenges cited by Financial Institutions....96
Policy Gaps....99
Conclusion....102
Recommendations....104
Developing Dedicated Ecosystem....104
Dedicated Sourcing & Facilitating Agency for Small Business Loans....105
Dedicated Missing Middle Scheme For Small Businesses....105
Partnership with MFIs & SFBs....106
Developing Dedicated Digital Lending Platform....106
Developing Database of Tiny Entrepreneurs....106
Business Plan for BCs around Small Loan Facilitation....106
Payments Mapping Based Lending Model....107
Increased Allocation of Enterprise Portfolio for MFIs & SFBs....107
Allocation of Small business Indicator in Annual Credit Plan (ACP)....107
Strengthening Fintech Environment around Small business loans in State....108
References....109

List of Tables

Table 1 Number of MSMEs in MP....20

Table 2 Central Government Schemes 26
Table 3 State Government Schemes 31
Table 4 Coverage of Pradhan Mantri Employment Programme 33
Table 5 Mukhya Mantri Yuva Udyami Yojana 33
Table 6 Mukhya Mantri Swarozgar Yojana....................34
Table 7 Sample for Demand Side 40
Table 8 Details of Interview Respondents 41
Table 9 Compliance 64
Table 10 Inventory 66
Table 11 Factor Analysis - KMO....................71
Table 12 Factor Analysis - Communalities 72
Table 13 Factor Analysis - Communalities 72
Table 14 Factor Analysis - Total Variance 73
Table 15 Factor Analysis - Rotated Component Matrix 74
Table 16 Reliability Score 75
Table 17 Summated Scale....................75
Table 18 Logistics Regression - Classification Table....................76
Table 19 Logistics Regression - Variables not in Equation....................77
Table 20 Logistics Regression - Omnibus Test 78
Table 21 Logistics Regression - Model 78
Table 22 Logistics Regression - Variables in Equation....................78
Table 23 Number of Cases in Clusters 79
Table 24 Final Clusters 80
Table 25 Demographic Analysis of Clusters 82
Table 26 Age Classification of Clusters 83
Table 27 Education Qualification of Clusters....................84
Table 28 Years of Operation of Clusters 85
Table 29 Income Classification in Clusters 86
Table 30 Infrastructure Status in Clusters....................87
Table 31 Major Findings of Clusters 87

Table 32 Thematic Analysis 90

List of Figures

Figure 1 % Growth of MSMEs in MP 21
Figure 2 Financial Institutions 22
Figure 3 Urban Rural Composition.. 44
Figure 4 Age Composition 44
Figure 5 Education Qualification 45
Figure 6 Industry Segments 45
Figure 7 Business Types 45
Figure 8 Infrastructure Status.. 46
Figure 9 Infrastructure Ownership Status 46
Figure 10 Registration & Documentation.. 47
Figure 11 Reasons of Low GST Registration 47
Figure 12 Record-Keeping & Digital Payments 48
Figure 13 Types of Records 48
Figure 14 Capital Investment Category 49
Figure 15 Average Inventory 49
Figure 16 Sales Volume 50
Figure 17 Type of Accounts 50
Figure 18 Applied for Loan 51
Figure 19 Received Loan 51
Figure 20 Financing Requirement 51
Figure 21 Requirement Slab of Financing 52
Figure 22 ACCESS TO FINANCE Constraints 53
Figure 23 Sources of Finance-Informal Sources 53
Figure 24 Technical Assistance 54
Figure 25 Suggestions to improve ACCESS TO FINANCE....................................... 55
Figure 26 Institution Preference Rating (1 indicates least and 5 indicates most) 56
Figure 27 Indicators of Access to Finance (1 indicates least and 5 indicates most)................ 57

Figure 28 Awareness about Govt. Schemes 58
Figure 29 Employment Creation (Beyond self) 59
Figure 30 Rural Urban Spread 59
Figure 31 Age Composition 60
Figure 32 Category Composition 60
Figure 33 Educational Qualification 61
Figure 34 Industry Sectors 62
Figure 35 Activity Composition 62
Figure 36 Premise Ownership Status 63
Figure 37 Documentation 64
Figure 38 Capital Composition 65
Figure 39 Average Inventory 66
Figure 40 Type of Accounts 67
Figure 41 Loan Requirement 67
Figure 42 Slab of Loan Requirement 68
Figure 43 Loan Applied & Received 68
Figure 44 Sources of Loan 69
Figure 45 Informal Sources 69
Figure 46 Challenges 71
Figure 47 Network Analysis 95
Figure 48 Network Analysis 98

Executive Summary

Background of the Study:

The state government renders many of its programs to people through formal financial institutions usually banks. Banks also form the most critical link in streamlining the financially excluded population through the branch network, ultra-small branches/business correspondent networks. As of December 2021, Madhya Pradesh (MP) has a network of 8034 bank branches supported by a growing network of business correspondents, etc. The total credit supply as of 31st December 2021 was Rs. 3.79 Lakh Crores in MP which is led by the priority sector and followed by agriculture loans and micro small and medium enterprise (MSME) loans (9.41%). Further, as of March 2020, there are a total of 2.88 lakh registered small and medium enterprises (SMEs) in MP with an investment of Rs. 19242 crores, generating employment for 1 lakh people.

In the last five years, MP Govt has supported 1.2 lakh beneficiaries under the Mukhya Mantri Swarojgar Yojna (MMSY), providing financial support of 1105 crore as margin money on loans extended worth around Rs. 7000 crores. Under Mukhya Mantri Yuva Udyami Yojana (MYUY), around 1400 beneficiaries have been benefited.

During the troubled COVID period, the state government focusing on the low-income segment has extended credit of 2.62 lakh street vendors, who have been affected badly due to lockdown and loss of business in the pandemic. Banks, along with the government, has extended Rs. 268 crores to 2.6 lakh street vendors in the state with an average loan of Rs. 10,000/-.

Further, 35.57 lakh people in MP were benefitted through the Mudra Loan scheme in the year 2019-20, wherein 86% belonged to Shishu category (less than 50k) and 10% of Rs. 1-5 lakh segment.

Most of the schemes cover either the marginalised and weaker section like street vendors or loans under Shishu loans or coverage of microfinance institutions (MFIs) for up to Rs. 1 lakh loan and the higher segments of SMEs (more than 10 lakh). The segment of Rs. 1-5 lakh is missing from most scheme benefits, and commercial lending aspects are termed missing middle, which needs specific attention. Further, most of the enterprises in MP are own account enterprises which are involved in trading or service activities and need funds to run the business. They face several issues related to accessing finance from banks as the size of enterprises is not large and most of them are in the informal sector. The current study tries to address the demand and supply side issues of micro enterprises in MP.

It is divided into two phases; phase one explores the issues related to access to finance from the micro-enterprises view, i.e., demand-side; phase two delves into the concerns and challenges of the institutions in providing finance for micro-enterprise, i.e., the supply side. Therefore, the study team has used a descriptive research design.

For demand side, the study collected primary data of respondents from 513 micro-enterprise owners from the selected districts; Tikamgarh, Rewa, Indore, Jabalpur and Khargone. For supply-side issues of access to finance, it conducted interviews of officials of banks, MFIs, other financial institutions, district industrial centres, MSME department and Directorate of Institutional Finance, MP. It applied descriptive analysis, exploratory factor analysis (EFA), logistic regression and cluster analysis to analyse responses of the structured schedule and thematic analysis to analyse interview responses.

The study covered 513 entrepreneurs in five districts of MP- Indore representing 24% of the sample followed by Khargone & Tikamgarh (21%), Rewa (19%) and Jabalpur (15%). Out of the total sample, 46% of respondents are from urban areas and the remaining from rural areas. 46% of entrepreneurs are from the trading sector, followed by 42% in the service sector and 10% in the production/manufacturing sector. 69% of the sample enterprises have rented premises and 31% have owned.

96% of entrepreneurs are registered under the shops and establishment act, while 57% are registered under GST, this indicates the reliability and stability of entrepreneur’s businesses. 69% of entrepreneurs have filed tax returns at least once in the last three years. Only 16% of entrepreneurs have insurance (mostly fire and theft).

93% of entrepreneurs keep some type of record books of their business and 88% of entrepreneurs have adopted digital payment for receiving payments from customers and making payments to suppliers.

Out of total sample 33% of respondents belong to a segment of less than 2 lakhs capital investment, 21% of 2-3 lakhs, 38% of 3-5 lakhs capital investment and only 8% entrepreneurs have invested more than 5 lakhs in setting up their business.

Predominantly savings accounts are used by entrepreneurs (92%) for their business and only 8% reported using current accounts for their business. This is one of the impediments in access to finance wherein banks emphasise the requirement of the current account and prefers to see the transaction in the current account of business while taking financing decision.

Findings of the Study:

Access to Finance Status

Only 24% (123) entrepreneurs have ever applied for business finance. Few entrepreneurs have applied multiple times for business loans. Out of 123 entrepreneurs, only 33% stated that they were able to avail finance from financial institutions.

This indicates a very low level of penetration, lack of information and lack of confidence in entrepreneurs in the segment of small business loans (1-5 lakh). 29% of entrepreneurs stated they didn't know how to apply for a business loan, 18% said that it takes a long time and hence have not applied, 12% stated its very complex process and often requiring too much time fulfilling the formalities, 14% stated the business loan has complex documentation.

Public Sector Banks (PSBs) and Reginal Rural Banks (RRBs) have the largest share of business loans among entrepreneurs who have availed loans (30%), followed by Private banks and non-banking financial corporations (NBFCs) (28%) and MFIs contributing around 15% of entrepreneurs demand. The average loan availed from formal financial institutions is around Rs. 1.2 lakh in form of the term loan, minimum loan starting from 25 thousand and a maximum loan of Rs. 10 lakhs. The interest rate in the range of 7 to 26 percent and duration of loan ranged from 1 to 3 years.

Entrepreneurs, who could not access finance from formal financial institutions and who have never applied for business loans, met their demand of finance from Money lenders (37%), Friends and family (35%) and savings and income from other businesses (28%). The average loan availed from these sources is around 2 lakhs with an average interest rate of 28% with no defined duration and repayment period.

Entrepreneur Preference

Entrepreneurs have stated they need technical assistance for accessing business loans from formal financial institutions. 44% of entrepreneurs stated they need assistance in the application process, 17% stated they need assistance in business plan development and documentation and 14% stated they need assistance on information related to business loans and schemes for entrepreneurs.

23% of entrepreneurs suggested that the Govt./MSME or SLBC should introduce a mobile-based application for loan application and sanction, wherein all the documentation and formalities can be conducted by entrepreneurs online and they are also able to see the status of their applications, reasons for rejection and offers by different banks.

17% of respondents suggested that an annual survey should be conducted in each branch area to determine the scope, market size and potential entrepreneurs for business loans. Another 15% suggested setting up loan centres in each branch area so that access and information gap could be plugged. 10% suggested for universal documentation and process for small business loans.

Factors Affecting Access to Finance in Madhya Pradesh

Based on the exploratory factor analysis, the study identified four major factors as major influencers in of accessing to finance for micro enterprises. These includes ***enterprise characteristics, the creditworthiness of the firm, the financial status of the entrepreneur and awareness about government schemes***. Out of these factors, the creditworthiness of a firm is the significant factor which includes several aspects such as collateral security, documentation, non-maintenance of books or records and association with big firms.

Demand Side Challenges

- Entrepreneurs do not perceive high-interest rates as the crucial hindrance factor for poor access to finance, almost 21% of entrepreneurs disagreed that higher interest rates act as a deterrent for access to finance.
- 97% of entrepreneurs perceive longer loan application processing time acts as a deterrent for access to finance, similarly around 94% of entrepreneurs perceive complex and different documentation processes and requirements creates a bottleneck for access to finance.
- Around 95% of entrepreneurs believe that taking the first time loan from formal institutions is very difficult, especially if it's a new business. Entrepreneurs also stated that the role of a robust business plan is also key while pitching the idea for a new business to Financial Institutions. 95% of entrepreneurs in rural areas stated that lack of nearby branches is one of the reasons for poor access to finance as most FIs have defined operational areas and distance from FI often leads to diminished interest from both parties.
- Entrepreneurs also stated that specific and targeted promotion schemes for small businesses should be launched with capping of finance up to Rs. 5 lakh with a combination of margin money contribution rather than subsidy involvement as experiences of dealing with subsidy related schemes in general is not positive.
- 23% of entrepreneurs suggested that the Govt./MSME or SLBC should introduce a mobile based application for loan application and sanction, wherein all the documentation and formalities can be conducted by entrepreneurs online and they are also able to see the status of their applications, reasons for rejection and offers by different banks.
- Another 23% of small businesses suggested holding awareness creation camps about MSME and business loans in major markets, rural haats and gram panchayats in improving the knowledge deficit.
- 17% of respondents suggested that an annual survey should be conducted in each branch area to determine the scope, market size and potential entrepreneurs for business

loans. Another 15% suggested setting up loan centres in each branch area so that access and information gap could be plugged.

Supply Side Challenges

- It was evident that availability of credit proposals is one of the primary concerns of bankers in the micro enterprises segment, wherein walk-in business is the major source of business. In addition, banks do not have sufficient human resources. In Government Sponsored Schemes (GSSs), the majority of sourcing workload is being managed by govt. departments (such as DIC, KVIC, NRLM etc), where the quality of proposals is the larger concern of bankers.
- Bankers have sighted concerns over genuine borrowers amid a flooding of the applications under GSS schemes and also highlights that at times the actual beneficiary is not able to avail the intended benefit of the scheme. Bankers also felt that subsidy driven mindset is also a major constraint for this segment.
- The majority of the respondents from the banks cited non-viability of funding to micro-enterprises. Low lending size causes stress on profitability of the bank as the cost of serving these MSME remains high. Further, the recovery of loans from micro-enterprises is an issue, which leads to NPAs.
- Most of the loan applications under GSS do not have any strong idea of assets creation and revenue generation. Therefore, there are fewer genuine borrowers. These borrowers apply for the loan to use it for another purpose. These tendencies of diverting the business loan for consumption purposes, deters the financial institution from MSME lending.
- Most of the applicants are financially illiterate and lack awareness about government schemes. They hesitate to approach public sector banks for getting a loan and lack the confidence to talk to anyone on the financial matters related to their enterprise. However, those who apply for the loans come up with common business activities with the mindset to get loan waivers and subsidies to use these funds for purposes other than the business.

- Banks and other financial institutions run minimal financial literacy campaigns due to a lack of time and workforce. Respondents have argued that borrowers need to understand financial matters and run a business based on these laid principles.
- RRBs are struggling to create portfolios under MSMEs due to the non-availability of Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) cover for RRBs. RRBs stated that this is constraining their ability to create business portfolios especially small businesses, wherein they stated that there is huge potential.
- The microfinance institutions stated that they are geared to transform at least 20% of their regular microfinance clients into enterprise clients in the next 3-5 years. MFIs are struggling with regulatory concerns and the right product mix for the loan segment of Rs. 1-5 lakhs. MFIs have also stated that awareness among district administration on the functioning of MFIs, their role could play an enabling role for MFIs to extend their outreach in this segment.
- Bankers and financial institutions stated that there is a lack of enabling ecosystem at the district level for small businesses lending at both the demand and supply sides. Some of the elements such as financial literacy, proper business planning, access to information and awareness on business loans at block and district level is missing from the ecosystem, which constraints both entrepreneur and financial institutions.
- One of the key constraints is the lack of specialised verticals and branches to cater to the specific requirement of this segment. Specialised skill sets for appraising loan application of this segment needs to be developed as the standard norms and appraisal process does not apply to this segment.

RECOMMENDATIONS

DEDICATED SOURCING & FACILITATING AGENCY FOR SMALL BUSINESS LOANS

Government departments play a larger role in implementing the centre and state government schemes facilitating access to finance for MSMEs. They facilitate in the sourcing of applications apart from the promotion of the scheme. Multiple departments with limited staff strength and expertise on access to finance working on completion of targets leading to serious gaps in business analysis, documentation and appropriateness of application.

The creation of a dedicated sourcing agency for access to finance schemes will cover all schemes of state government-related. It could be a possible solution in addressing access and sourcing issues faced by entrepreneurs and bankers respectively at the same time reducing the stress of departments who can focus more on better promotion, linkages and monitoring & follow up with FIs. Creation of a dedicated sourcing agency will create significant expertise in the areas of access to finance with a particular focus on small businesses. A revenue-based model with financial Institutions could be worked out on sourcing, facilitation and regular monitoring by this agency.

DEDICATED SCHEME FOR Rs 1-5 LAKH BUSINESSES

A dedicated scheme specific to the Rs 1-5 lakh segment for existing and new entrepreneurs on the line of the PM Svanidhi Scheme could be introduced. GST linked subsidy model can be used to encourage entrepreneurs for better GST adoption and transparent subsidy utilisation and distribution.

PARTNERSHIP WITH MFIS & SFBS

The segment of micro enterprises has been the target clientele for MFIs and Small Finance Banks (SFBs). This institution has a specific focus and has built a strong mechanism of appraisal and monitoring for the financing segment. MFIs 100% clientele belongs to small finance with an emerging focus on enterprise lending. Institutional partnership with MFIs and

SFBs by developing special projects targeting micro-enterprise financing with incentives for MFIs could lead to increased outreach and better access to finance for this segment.

DEVELOPING DEDICATED DIGITAL LENDING PLATFORM

MSME department must think of developing an app-based application process for various financing schemes. The app should facilitate scheme information, application process management, tracking provisions and other advisory services. The entrepreneur/applicant can upload necessary documentation digitally with Aadhar authentication (including Udyog Aadhar & GST returns). It will reduce redundancies in the system and increase tracking of applications with an accountability framework of disposal of applications in a timely manner (both approval and rejection with reasons).

DEVELOPING DATABASE OF TINY ENTREPRENEURS

Lack of data, genuine entrepreneurs and outreach are a few of the critical reasons for the inability of FIs to provide better financial services to this segment. State-driven database creation of small businesses could be taken up in the line of Udyog Aadhar with Aadhar and GST validation. The database can be used as targeted financial services by financial institutions, GSS and new-age lending institutions (Start-up). The database can also be looked at as an extension or branching of the Samagra Samajik Suraksha Mission (SSSM) module wherein small businesses development and tracking could be done at the state level.

BUSINESS PLAN FOR BUSINESS CORRESPONDENTS AROUND SMALL LOAN FACILITATION

Madhya Pradesh state has one of the best coverages of business correspondents in the country with the presence of a business correspondent in every 5 kms, also popular as financial inclusion model of Madhya Pradesh. However, this vast network of BCs has not been utilised for asset business by banks. BCs could be utilised and incentivised on a business model based on sourcing, initial screening and repayment. The regularity of interaction and dealing of BC with its immediate ecosystem can be utilised for increasing the credit penetration for this segment.

PAYMENTS MAPPING BASED LENDING MODEL

The payment transaction history of entrepreneurs can act as a proxy for their overall business volume and sales. A payment-based lending model can resolve multiple documentation and access issues for entrepreneurs as well as FIs. Payment driven lending model with the partnership of NPCI (data sharing) could be piloted in a few geographies with entrepreneurs. This can be worked between MSME department and SLBC for the state.

INCREASED ALLOCATION OF ENTERPRISE PORTFOLIO FOR MFIS & SFBS

Small businesses require small loans, which may be too expensive to serve by commercial banks. In particular, the credit appraisal tools used to assess the risks associated with larger loans may not be appropriate for the evaluation of small business loan applications.

Currently, most MFIs & SFBs make these loans available for individual borrowers, in addition to their traditional group loans. Individual members of an MFI that have successfully repaid their group loans are eligible for individual microenterprise (ME) loans. There is significant scope for allocating a larger share of MFI portfolios to enterprise lending (above 1 lakh), which at present stands at 10%. The limit can be enhanced to 30%, allowing MFIs to graduate their clients into micro-entrepreneur clients.

ALLOCATION OF SMALL BUSINESS HEAD IN ANNUAL CREDIT PLAN (ACP)

Allocation of dedicated head of small loans up to Rs. 5 lakhs (Capital and working capital) within MSME in the State and District Annual Credit Plan and reporting by banks on the same is required. This could be done in the similar lines of current indicator in ACP of loans to small and marginal farmers, bringing in the focus and target for financial institutions. Larger allocation of share of small businesses (up to Rs. 5 lakh) may be given to SFBs & MFIs within Annual Credit Plan.

STRENGTHENING FINTECH ENVIRONMENT AROUND SMALL BUSINESS LOANS IN STATE

New age Fintech companies developing expertise in faceless and no contact loan process and loan sanctions using cutting edge technologies and proxy indicators for business income have shown impressive growth in recent times particularly for small businesses. Peer to peer and crowd funding based lending, which recently have been given a green signal by RBI is also making a deep impact on this segment. Developing a targeted Fintech incubator around ACCESS TO FINANCE for small businesses promoting state-based fintech companies and collaboration with existing fintech companies operating in this environment is critical to improve the access to finance coverage for small businesses in the State in the next 4-5 years.

Introduction

MSMEs play a vibrant role in any country's economic growth and employment. Globally, MSMEs account for more than 50 per cent of jobs and contribute to at least 35 per cent of gross domestic product (GDP).[1]In emerging markets, seven out of 10 formal jobs are created by SMEs, and this figure rises to nine in 10 jobs in some low-income countries.[2] Since the global economy needs to generate 600 million new jobs over the next 15 years to absorb the growing workforce and reduce unemployment, MSME development is a high priority for governments in both developing and developed economies.[3]

MSME sector has emerged as a dynamic and highly vivacious sector of the Indian economy. It has contributed significantly to the economic and social development of the country by promoting entrepreneurship and generating employment opportunities. The development of MSMEs and changes in their structure contributed to employment generation, market expansion and economic growth.

MSMEs are the backbones of the socio-economic growth of India. They contribute to the employment generation, innovation, exports, and inclusive growth of the economy. Further, they account for 45% of total industrial production and 40% of total exports. The two different segments of MSMEs in India are manufacturing and service and contribute 7.09% and 30.50% of GDP, respectively. Therefore, the total contribution of MSMEs to the GDP is 37.54%.

The importance of the MSMEs is that the Government of India (GoI) came up with the MSMEs Act in 2006 to provide enabling policy environment for the promotion and development of this sector. The Act provides a framework for developing and enhancing the competitiveness of MSME enterprises. It was brought to ensure the flow of credit to the sector. It also has the motive of paving the way for government procurement of MSME products and services and addressing the issue of delayed payments, among others. Therefore, the law was expected to address the major challenges related to physical infrastructural bottlenecks, absence of

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[1] World Bank Group, What's Happening in the Missing Middle?: Lessons from Financing MSMEs (Washington, DC., 2017) Available at: https://openknowledge.worldbank.org/handle/10986/26324

[2] Ibid

[3] Ibid

formalisation, technology adoption, capacity building, backward and forward linkages, lack of access to credit, the perennial problem of delayed payments, etc. However, these problems are still hindering the development of a conducive business environment from expanding this sector.

Limited access to finance is a significant hindrance to the growth of MSMEs. However, the problem does not affect all enterprises equally. While commercial banks generally finance larger firms, smaller individual loans have been catered by MFIs and self-help groups (SHGs). Between these two groups, there is a 'Missing Middle' of enterprises with financial needs that are not met by the current market. This missing middle mainly consists of small/tiny enterprises not registered under MSME with loan demand up to INR 5 lakh, a segment beyond the financing of MFIs and SHGs and too little for commercial banks.

In this background, this study was set up by AIGGPA in collaboration with the MSME department, Govt. of MP. The study analyses the setup on formal and informal channels of tiny enterprises financing. It focuses on sources of finance available for tiny enterprises, reasons for using particular sources of finance, awareness about other formal and informal channels, and issues in accessing formal sources of finance and analyse demand and supply-side concerns.

Status of Micro Enterprises in MP

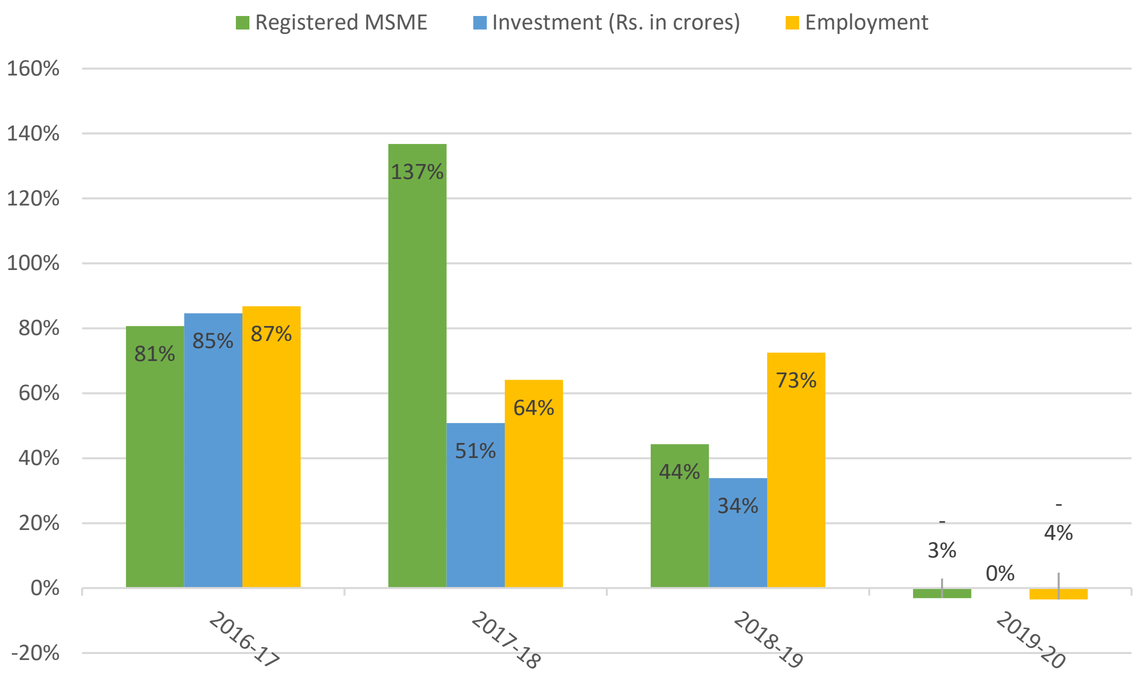
As of March 2020, there is a total of 2.88 lakh registered SMEs in MP with an investment of Rs. 19242 crores, generating employment for 1 lakh people.

Table 1 Number of MSMEs in MP

S. No.	Year	Registered MSME	Investment (Rs. in crores)	Employment
1	2015-16	48179	5171.75	194761
2	2016-17	87071	9547.32	363812
3	2017-18	206142	14401.67	596990
4	2018-19	297595	19284.97	1030084
5	2019-20	288479	19242.09	993876

Source: https://mpmsme.gov.in/mpmsmecms/Uploaded%20Document/Documents/SES_Achieve_Eng.pdf

Figure 1 % Growth of MSMEs in MP



The average CAGR in the growth of a number of SMEs is around 65% since 2015-16, barring the exception of 2019-20, where registered MSME showed negative growth. The investments in the MSMEs are on declining trend.

As per the annual report (2020-21) of the MSME department Government of India, MP is among the top 10 states in terms of MSMEs in India (10th place). It is estimated that there are around 26.74 lakh MSMEs in MP, which accounts for 4% of MSMEs in India. It is further estimated that 26.42 lakh (98%) of 26.74 lakh MSMEs in MP are in the category of Micro Enterprises and rest are of small and medium size. Only 15% the small enterprises are run by females.

Financial Institutions in MP

There are many institutions involved in the State, such as Commercial Banks, Regional Rural Banks, Private Banks, Small Finance Banks, Cooperatives, Primary Agriculture Credit Society (PACS) and informal financial institutions such as MFIs and SHGs to address the problem of access to finance for MSMEs. Apart from these, Apex Financial institutions such as Small Industrial Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD), Export-Import Bank of India (EXIM), Khadi and Village Industries Commission (KVIC) also serves the MSMEs. All of these institutions form an ecosystem to finance the MSMEs in MP. However, their mechanism, focus areas and instruments for funding of the MSMEs differ.

Formal Financial Institutions

As of 31 March 2020, 34 Scheduled Commercial Banks (12 Public Sector Banks & 22 Private Sector Banks), 2 Regional Rural Banks (RRBs), 1 State Cooperative Bank (MPStCB), 38 District Central Cooperative Banks (DCCBs) and 8 Small Finance Banks (SFBs) are operating in the state.

As of 31 March 2020, banking services in the State are covered through a network of 7958 branches with 2712 rural branches (34%), 2588 semi-rural branches (33%) and 2658 urban branches (33%). Besides brick-and-mortar branches, 10343 business correspondents are actively working and extending banking facilities in 11864 rural Sub Service Areas.

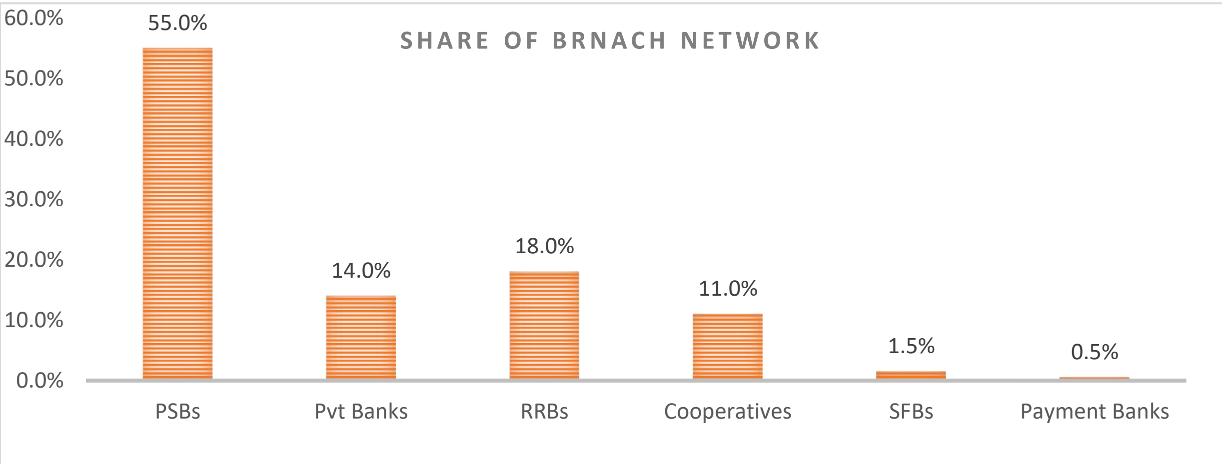


Figure 2 Financial Institutions

Public Sector Banks constitute 55% of the banking network in MP, followed by Regional Rural Banks (18%), Private Sector Banks (14%), Cooperative Banks (11%), and others (2%). As of 31 March 2020, the State has 9,320 ATMs. Total credit outstanding in the state is 3.79 Lakh

Crore, out of which commercial bank's share is 3.12 lakh crores, RRBs share is 15 thousand crore, cooperative banks is 40 thousand crores, and SFBs is eight thousand crore.

Secondary Formal Financial Institutions

Primary Agriculture Cooperative Societies (PACS), which are the grass root level credit institutions of short-term cooperative credit structure (STCCS). In MP, 4524 PACS have a membership of 76.18 lakh. The PACS plays a vital role in providing short term agriculture support to small and marginal farmers and business portfolio is of Rs. 40 thousand crores (SLBC website). The focus of rural co-operative banks was on agriculture lending, its share on total agriculture lending has diminished over the years from 64% (1992-93) to 11.3% in 2019-20 (RBI, 2020).

Informal Financial Institutions

Self Help Groups (SHGs) About 3.7 lakh SHGs are operating in the state, covering about 48 lakh households (average 13 members per SHG) with savings of around Rs. 742 crores as of March 2020. Under SHG-Bank Link Program (SBLP), as of March 2020, around one lakh SHGs are credit-linked with loans outstanding of Rs. 657 crores. (NABARD, Annual Report March 2020)

Micro Finance Institutions (MFIs) There are around 50 Microfinance companies operating in MP, covering 50 Districts out of 52 districts with 1551 branches with an average of 30 branches per district. The microfinance institutions cater to around 28.60 lakh households, roughly around 20% of total households in MP. The total gross portfolio of MFIs in MP stands at INR 6558 crore as of March 2020. In FY 2019-20 MIFs have disbursed INR 6809 crore in MP. (Sa-Dhan, 2020)

Similar to the SHG model, MFIs are the vital source of funding for MSMEs when they cannot access banking and other related services. MFIs provide credit to MSMEs and include other services like insurance, savings, and remittance. In MP, mostly MSMEs are unorganized and small which is outside the purview of the formal banking system. But they play a very important role in fulfilling the financial need of micro and tiny enterprises in MP. MFIs lend to MSMEs through their equity and debt sources. In line with this, through the MP District Poverty Initiative Project (MPDPIP) and Tejaswini programme, the state government tried to reach out to financially excluded populations through a group mechanism. The motive of these programmes is to increase the outreach of small ticket loans in MP. The success of these programmes is not very encouraging due to the less presence of MFIs in MP than other states in India. Further, MFIs provide loans to tiny, micro and small enterprises as most of these enterprises are unregistered and in the unorganised sector. Therefore, there is a need for promoting a large number of MFIs in the state to increase the access to finance to micro and tiny enterprises in the state.

Apex Financial Institutions

Small Industries Development Bank of India

Small Industries Development Bank of India (SIDBI), set up on 2nd April 1990 under an Act of Indian Parliament, is the Principal Financial Institution for promotion, financing and development of the MSME sector and for co-ordination of functions of institutions engaged in similar activities. SIDBIs focus area has been on non-farm and Agri allied based micro-enterprises development in India.

SIDBI executes its mandate through-

- Indirect Lending- based on multiplier effect/ larger reach in financing the MSME sector and is undertaken through Banks, SFBs, NBFCs, MFIs and New Age FinTech's.
- Direct Lending- aims to fill the existing credit gaps in the MSME sector and is undertaken through demonstrative and innovative lending products.
- Fund of Funds- boosts entrepreneurship culture by supporting emerging startups through the Fund of Funds channel.
- Promotion and Development-promoting entrepreneurship and handholding budding entrepreneurs for holistic development of MSME sector through credit-plus initiatives.
- Facilitator- playing a facilitator through roles like Nodal Agency for the MSME oriented Schemes of the Government.

National Bank for Agriculture and Rural Development

National Bank for Agriculture and Rural Development (NABARD) came into existence on 12 July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC).

NABARD plays a critical role in facilitating credit growth in agriculture and Agri-allied sectors such as Dairy and have been a pioneer in the self-help movement to create sustainable livelihood opportunities for the individual, especially in rural areas. NABARD has become a holistic institution for building financial, social, economic and technological capital for the development of the rural regions. NABARD has achieved it through its flagship programmes such as SHG-Bank linkage, which has the widespread adoption by Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs) and commercial banks.

NABARD is the key institution for releasing subsidies under various Govt of India schemes such as Credit linked Capital Subsidy scheme for MSMEs, the National Handloom Development Program, Promotion and creation of Food Parks. NABARD flagship product Rural Infrastructure Development Fund (RIDF), supports creating necessary infrastructure in rural areas needed for MSME and agricultural economic development.

Export-Import Bank of India

It works as a principal financial institution for coordinating the working of institutions engaged in financing the export and import of goods and services. Apart from this, EXIM bank offers support to export-oriented small and medium enterprises. It provides long-term foreign currency loan requirements to Indian exporting entities in the MSME sector to finance their eligible capital expenditure, set up new facilities, expansion/modernisation of existing facilities, acquire equipment and plant & machinery, setting up of R&D facilities and infrastructure facilities.

Khadi Village Industry Corporation

It is a statutory body established by the act of parliament and took over the All-India Khadi and Village Industries Board. It is an apex organisation under the Ministry of MSMEs regarding khadi and village industries within India. It seeks to plan, promote, facilitate, organise, and assist in establishing and developing khadi and village industries in rural areas. The main objective of KVIC is to enable large scale employment with low per capita investment in rural areas by supporting small business units. KVIC provides a platform to artisans and small business enterprises for the marketing of products. Major schemes of KVIC are Pradhan Mantri Employment Generation Programme, Interest Subsidy Eligibility Certification scheme and Rebate Scheme to promote the khadi products.

The above mechanisms to address the financing needs of MSME are oriented towards the broader arrangements for routing of finances and not pivoted on the direct beneficiary dealings. In a way, this setup can loosely be categorised as the institutional mechanism for financing the MSMEs. This mechanism is accountable for the timely availability of information related to access to finance and financing to stakeholders, especially MSME owners (unit holders). Every institution has its schemes, programmes and policies to deal with the issue of access to finance; however, even after the presence of such strong institutions/organisations for access to finance in MP. The problem of access to finance for tiny, micro and small enterprises still prevails.
The persistency of the access to finance problem is the vagueness of the institutional mechanism for access to finance in the state. The multitude nature of the institutional mechanism makes it incomprehensible for the majority of the stakeholders involved in dealing with the problem of access to finance in the state. Further, there is no such structured mechanism available for institutions involved in access to finance for MSMEs and sometimes, the role of various institutions overlaps. It gravitates to the problem of access to finance even though there are several institutions involved in it. One example of it is that most of the schemes provide finance to the manufacturing sector, mainly small enterprises. However, most of the enterprises in the state are micro or tiny in nature.

Existing Schemes and Policies for Access to Finance

Central Govt. Schemes

Table 2 Central Government Schemes

Scheme	Description	Nature of Assistance	Who can apply

Credit Guarantee Scheme	Ministry of Micro, Small and Medium Enterprises, GoI and Small Industries Development Bank of India (SIDBI) established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement Credit Guarantee Fund Scheme for Micro and Small Enterprises. GoI and SIDBI are contributing the corpus of CGTMSE.	Collateral free loans up to a limit of Rs.50 lakh - for individual MSEs	Both existing and new enterprises are eligible under the scheme.
Credit Linked Capital Subsidy (CLCS) for Technology Upgradation	Technology upgradation would ordinarily mean induction of state-of-the-art or near state-of-the-art technology, in the varying mosaic of technology covering more than 7,500 products in the Indian small scale sector. It includes the installation of improved packaging techniques as well as anti-pollution measures and energy conservation machinery. Further, units in need of introducing facilities for in-house testing and on- line quality control would qualify for assistance, as the same is a case of technology up-gradation.	The revised scheme aims at facilitating technology upgradation by providing 15% up- front capital subsidy to MSEs, including tiny, khadi, village and coir industrial units, on institutional finance availed by them for induction of well-established and improved technologies in specified sub-sectors/products approved under the scheme.	Eligible beneficiaries include sole proprietorships, partnerships, cooperative societies, and private and public limited companies in the MSE sector. Priority shall be given to women entrepreneurs.
Micro & Small Enterprises Cluster Development Programme (MSE-CDP)	The Ministry of MSME has adopted a cluster development approach as a key strategy for enhancing productivity and competitiveness as well as capacity building of MSEs and their collectives in the country. Clustering of units also enables the providers of various services to them, including banks and credit agencies, to provide their services more economically, thus reducing the costs and improving the availability of services for these enterprises.	Soft interventions- the maximum cost of the project is Rs.25.00 lakh, with a GoI contribution of 75% (90% for special category States and for clusters with more than 50% women/micro/ village/SC/ST units). Hard interventions, i.e., setting up of CFCs – maximum eligible project cost of Rs.15.00 crore with GoI contribution of 70% (90% for special category States and for clusters with more than 50%	Industrial associations/Consortia, Clusters

		women/micro/village/SC/ST units).	
		Infrastructure development in the new/ existing industrial estates/areas; maximum eligible project cost Rs.10.00 crore, with GoI contribution of 60% (80% for special category States and for clusters with more than 50% women/micro/SC/ST units).	
Micro Finance Programme	The Union Government has launched a scheme of micro finance and tied up with the existing programme of SIDBI by way of contributing towards security deposits required from the MFIs/NGOs to get a loan from SIDBI. The scheme is being operated in the under-served States and under-served pockets/districts of other States.	The government of India provide funds for micro finance programme to SIDBI, which is called ‘Portfolio Risk Fund’ (PRF). At present, SIDBI takes a fixed deposit equal to 10% of the loan amount. The share of MFIs/NGOs is 2.5% of the loan amount (i.e., 25% of security deposit), and the balance 7.5% (i.e., 75% of security deposit) is adjusted from funds provided by the Government of India.	MFIs/NGOs
Bank Credit Facilitation	To meet the credit requirements of MSME units, NSIC has entered into a Memorandum of Understanding with various nationalised and private sector banks. Through syndication with these banks, NSIC arranges for credit support (fund or non-fund based limits) from banks without any cost to MSMEs.	All documentation pertaining to the completion and submission of the credit proposal to banks shall be undertaken by NSIC.	Micro, Small and Medium Entrepreneurs.

Prime Minister's Employment Generation Programme (PMEGP)	The scheme is implemented by Khadi and Village Industries Commission (KVIC) as the nodal agency at the national level. At the state level, the scheme is implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and banks. The Government subsidy under the scheme is routed by KVIC through the identified Banks for eventual distribution to the beneficiaries/entrepreneurs into their bank accounts	The maximum cost of the project/unit admissible in the manufacturing sector is Rs.25 lakhs and in the business/service sector is Rs.10 lakhs.	Any individual above 18 years of age can apply. Only new projects are considered for sanction under PMEGP. SHGs (including those belonging to BPL, provided that they have not availed benefits under any other scheme), Institutions registered under Societies Registration Act, 1860; Production Co-operative Societies, and Charitable Trusts are also eligible.
Coir Udyami Yojana (Earlier known as Schemes for Rejuvenation, Modernisation and Technology Upgradation of Coir Industry)	This is a credit-linked subsidy scheme for setting up of coir units with project cost up to Rs.10 lakh plus one cycle of working capital which shall not exceed 25% of the project cost. Working capital will not be considered for subsidy.	Maximum admissible cost of the project is 10 lakhs plus working capital, which shall not exceed 25% of the project cost. Beneficiary's contribution 5% of the project cost Bank credit Rate 55%. Rate of Subsidy 40% of the project	Individuals, Companies, Self Help Groups, Non-Governmental Organizations, Institutions registered under Societies Registration Act 1860, Production Co-operative Societies, Joint Liability Groups and Charitable Trust.

Revamped Scheme of Fund for Regeneration of Traditional Industries (SFURTI)	To organize the traditional industries and artisans into clusters to make them competitive and provide support for their long term sustainability	The scheme would cover 03 types of interventions, namely 'soft Interventions', 'hard Scheme would cover three types of Interventions' and 'thematic interventions'. The project outlay for various clusters is as follows: Heritage cluster (1000-2500 artisans *): Rs 8 crore Major cluster (500-1000 artisans*) : Rs 3 crore Mini cluster (Up to 500 artisans*) : Rs 1.5 crore	Non-Government organizations (NGOs), Institutions of the Central and State Governments and, Semi-Government institutions, field functionaries of State and Central Govt., Panchayati Raj institutions (PRIs), etc with suitable expertise to undertake cluster development.
MUDRA	Pradhan Mantri MUDRA Yojana (PMMY) scheme provides loans up to 10 lakh. These loans are classified as MUDRA loans under PMMY. These loans are given by Commercial Banks, RRBs, Small Finance Banks, MFIs and NBFCs. The borrower can approach any of the lending institutions mentioned above or can apply online through this portal www.udyamimitra.in . Under the aegis of PMMY, MUDRA has created three products namely 'Shishu', 'Kishore' and 'Tarun' to signify the stage of growth / development and funding needs of the beneficiary micro unit / entrepreneur and also provide a reference point for the next phase of graduation / growth.	Collateral free loans up to a limit of Rs.10 lakh - for individuals.	To the non-corporate, non-farm small/micro enterprises.

State Govt. Schemes

Table 3 State Government Schemes

Name of Scheme	Department	Eligibility Criteria	Beneficiaries	Benefits
Mukhya Mantri Swarozgar Yojna	Department of MSME, Panchayat and Rural Development Dept., Cottage and Village Industries Dept., Backword classes and Minorities Dept., Urban Development and Housing Dept., SC welfare Dept., Tribal Welfare Dept., Nomadic and Semi Nomadic Tribal Welfare Dept.	Age – 18 to 40 Years Education – 10^{th} Pass Income – No boundation but the family of the entrepreneur should not have any business and have not paid income tax.	Only for those who are establishing new enterprise (manufacturing or service) eligible under CGTMSE for bank loan interest.	**Margin Money** – 15% of total capital expenditure of the project to General category (Max. Rs. 1 Lakh) and 30% to BPL family, scheduled tribe, scheduled castes, other backword class, women, minority and disabled people (Max. 2 Lakhs). 30% of total capital expenditure of the project to Nomadic and semi nomadic tribe (Max. 2 Lakhs) 20% of total capital expenditure of the project to Bhopal Gas affected Family (Max. 1 Lakh). **Interest Grant** – 5% of total capital expenditure to all and 6% of total to women (Max. 5 Lakhs for 7 years).
Mukhya Mantri Yuva Udyami Yojana	Department of MSME, Scheduled Castes Welfare Department and Tribal Welfare Department	Age– 18 to 40 Years Education– 10^{th} Pass Income– No boundation but the family of entrepreneur should not have any business and have not paid income tax.	Only for those who are establishing new enterprise (manufacturing or service) eligible under CGTMSE.	**Margin Money** – 15% of total capital expenditure of the project to General category (Max. Rs. 12 Lakhs) and 20% to BPL family (Max. 18 Lakhs) **Interest Grant** – 5% of total capital expenditure to all and 6% of total to women (Max. 5 Lakhs for 7 years). **Credit Guarantee Fund Trust for Micro and Small Enterprises** – Manufacturing and Service Enterprises (Max. 7 years)
Mukhya Mantri Krishak Udyami Yojana	Department of Farmers Welfare and Agriculture, Department of Horticulture and Food	Age – 18 to 40 Years Education – 10^{th} Pass Income – No boundation but the	Daughter/Son of Farmers establishing new enterprises.	**Margin Money** – 15% of total capital expenditure of the project to General category (Max. Rs. 12 Lakhs) and 20% to BPL family (Max. 18 Lakhs).

Name of Scheme	Department	Eligibility Criteria	Beneficiaries	Benefits
	Processing, Department of Fisheries and Fisherman Welfare, Department of Animal Husbandry	family of entrepreneur should not have any business and have not paid income tax. Applicant must have agriculture land and does not pay income tax.	Manufacturing and Service Enterprises related to Agro processing, Food processing, Cold storage, Milk processing, Cattle feed, Poultry feed, Fish feed, Custom hiring center, Vegetables dehydration, Tissue culture, Dal mill, Rice mill, Ice mill, Flour mill, Bakery, Species production, Seed grading/sorting and any other agriculture based industry	**Interest Grant** – 5% of total capital expenditure to all and 6% of total to women (Max. 5 Lakhs for 7 years). **Credit Guarantee Fund Trust for Micro and Small Enterprises** – Manufacturing and Service Enterprises (Max. 7 years)
Mukhya Mantri Aarthik Kalyan Yojana	Rural Development Dept., Cottage and Village Industries Dept., Backword classes and Minorities Dept., Urban Development and Housing Dept., SC welfare Dept., Tribal Welfare Dept., Nomadic and Semi Nomadic Tribal Welfare Dept.	Age – 18 to 55 Years Education – No limit Income – PDS card owner	Low cost equipment or working capital for establishing new enterprises to Barbers, Street Vendors, Haththela Puller, Cycle Rickshaw Pullers, Potters	**Margin Money** – 15% of total capital expenditure of the project to General category. 50% of capital expenditure (Max. 15000) to BPL family, scheduled tribe, scheduled castes, other backword class, women, minority and disabled people, Nomadic and semi nomadic tribe

Key Statistics of Centre/State Govt. Schemes in MP

Table 4 Coverage of Pradhan Mantri Employment Programme

PMEGP				
Year	**Beneficiaries**	**Margin Money disbursed (cr)**	**Loans (cr)**	**Average loan per beneficiary (cr)**
2015-16	1082	44	292	0.27
2016-17	1077	45	302	0.28
2017-18	1019	43	285	0.28
2018-19	1489	57	380	0.25
2019-20	1373	49	329	0.24
Total	**6040**	**238**	**1588**	**0.26**

Source: https://mpmsme.gov.in/mpmsmecms/Uploaded%20Document/Documents/SES_Achieve

Over a period of five years, 6040 beneficiaries benefited under the PMEGP scheme receiving a margin money contribution of Rs. 238 crores with loans disbursed of Rs. 1588 crores in five years.

Table 5 Mukhya Mantri Yuva Udyami Yojana

MYUY				
Year	**Beneficiaries**	**Margin Money disbursed (cr)**	**Loans (cr)**	**Average loan per beneficiary (cr)**
2015-16	1510	79.22	528	0.35
2016-17	1683	132.14	881	0.52
2017-18	1395	205.43	1370	0.98
2018-19	1060	168.59	1124	1.06
2019-20	1084	153.73	1025	0.94
Total	**6732**	**739**	**4927**	**0.73**

Source: https://mpmsme.gov.in/mpmsmecms/Uploaded%20Document/Documents/SES_Achieve

Over a period of five years, 6732 beneficiaries benefited under the MYUY scheme receiving a margin money contribution of Rs. 739 crores with loans disbursed of Rs. 4927 crores in five years.

Table 6 Mukhya Mantri Swarozgar Yojana

MMSY				
Year	**Beneficiaries**	**Margin Money disbursed (cr)**	**Loans (cr)**	**Average loan per beneficiary (cr)**
2015-16	23268	212	1416	0.060
2016-17	25794	228	1521	0.058
2017-18	30116	304	2026	0.067
2018-19	22886	258	1723	0.075
2019-20	16657	103	687	0.041
Total	**118721**	**1106**	**7373**	**0.062**

Source: https://mpmsme.gov.in/mpmsmecms/Uploaded%20Document/Documents/SES_Achieve

Over a period of five years, total 1.18 Lakh beneficiaries benefited under the MMSY scheme receiving a margin money contribution of Rs. 1106 crores with loans disbursed of Rs. 7373 crores in five years.

Mudra Scheme Performance in MP

35.57 lakh people in MP were benefitted through the Mudra Loan scheme in FY 2019-20, wherein 86% belonged to Shishu Category (less than 50k). Only 10% of Rs. 1-5 lakhs segments were benefitted under Mudra Loans.

Street Vendor Scheme Performance in MP

During the troubled COVID period, the state government focusing on the low-income segment has extended credit of 2.62 lakh street vendors, who have been affected badly due to lockdown and loss of business in the pandemic. Banks, along with the government, has extended Rs. 268

crores to 2.6 lakh street vendors in the state with an average loan of Rs. 10,000. In the country, MP stands at the 2nd position for extending financial support to street vendors. This is significant coverage of the affected low-income segment group. The program is entering into the second stage of inclusion, wherein 2nd cycle of financial support plan is being drawn.

Literature Review

MSMEs worldwide have consistently reported higher growth obstacles than large firms (Schiffer and Beatrice, 2001), mainly due to a lack of financing (Thampy, 2010; Wang, 2016). Claessens and Tzioumis (2006) confirmed that for larger firms, the researcher could easily review their access to finance by using secondary data and applying econometric methods, however for MSMEs where data is not available, the survey approach is better. They tend to finance a larger share of their investment via informal sources of financing (Beck and Demirguc-Kunt, 2006) such as lending from relatives, family and friends (Ayyagari et al., 2010; Haron and Ibrahim, 2016), their own savings, trade credit and retained earnings (Aktas et al., 2012). Unfortunately, these informal financing sources cannot meet the demand for financing (Ayyagariet al., 2010). Banks are the main source of external financing for SMEs in the Asian region because the region's financial systems and capital markets are not well developed and are often bank-dominated (Yoshino and Taghizadeh-Hesary, 2015). Unfortunately, MSMEs all over the world find it difficult to access credit from formal financial institutions.

Studies mentioned various important factors which affect the access to finance for MSMEs. Amene (2017) measured the factors which affect the access to finance for microenterprises in Ethiopia. An extensive survey has been conducted amongst SME managers by using a structured and unstructured questionnaire. The study found that a business plan, financial statement and collateral availability are the most significant factors which affect access to finance. Major hindering factors that affect access to finance are long time loan process, bureaucracy, short term loan repayment period, high collateral and high interest.

According to Wang (2016), one of the primary hurdles to external funding for SMEs in 119 developing nations worldwide is excessive borrowing prices. According to a survey conducted by Hyz (2011) on Greek SMEs, SMEs reported that banks request too much information and have very demanding administration procedures for the loan application. Additionally, the loan granting procedures are too long, and interest rates offered to the SMEs by the banks are too high. There are several reasons for these problems. First, due to poor record-keeping by SMEs, SMEs find it challenging to provide the concrete evidence required by financial institutions to determine the creditworthiness of an application when assessing loan requests (De Haas et al., 2010). Financial institutions find it difficult to assess an SME's creditworthiness due to a lack of documentation, credit information, and the inability to offer collateral, causing it to be seen as uncreditworthy and high-risk (Maiti, 2018; Thampy, 2010).

Small businesses also tend to request smaller loans (Copisarow, 2000), resulting in greater risk premiums and transaction costs. Banks are hesitant to lend because of their insufficient assets, poor capitalization, and high default rate (Maiti, 2018). Unlike publicly traded companies, small businesses do not have access to the worldwide capital market. As a result, they have fewer financing options and are more credit limited (Behret al., 2013). As a result, SMEs require other sources of external financing that can be used to fund their expansion. When SMEs are turned down for bank loans, they turn to trade credit (Maiti, 2018). Supply chain or inter-firm relationships between SMEs and major corporations are one option.

Chowdhury and Alam (2018) conducted a primary data study in Bangladesh to know the factors that affect MSMEs' financing. The study found that firms characteristics (age, size, type of business, and ability to produce collateral), financial characteristics (capacity to repay the loan, willingness to repay the loan, ability to present a business plan, current status of capital, interest rate, and original capital invested in the business), and entrepreneurial characteristics (educational background, managerial competency, networking) affect the access to finance.

Do et al. (2019) examined the factors affecting the access to finance for small and medium enterprises in Vietnam. The study surveyed 400 SMEs and examined them by using exploratory factor analysis (EFA). Regression analysis found that six factors: managerial experience, the owner-managers financial literacy, business plan, financial management regulations, the owner-managers education and business size affect the access to finance for SMEs. Further, Waari and Mwangi (2015) argued that asymmetric information, business risks and transaction costs affect access to finance of SMEs. In another study, Osano and Languitone

(2016) found that the availability of collateral, the age of business, the industry, the type of business, the age of the owner or manager, the religion of the owner or manager and the size of the business significantly affect the access to finance for enterprises.

Wasiuzzaman et al. (2020) examined the effect of linkages of SMEs with larger firms and its impact on credit worthiness and access to finance of SMEs in Malaysia. A sample of 456 SMEs in the manufacturing sector has examined and found that creditworthiness and access to finance have a positive and significant relationship with and without the linkages of large firms. However, linkages with the larger firms have no significant impact on the access to finance of small enterprises.

In another study, Zivari et al. (2020) examined the external and internal factors of access to finance. External factors include bank concentration, financial performance, debt conditions (interest rates, leverage and repayment periods), macroeconomic volatility, corruption, and geography and knowledge asymmetry. However, internal factors include entrepreneurial characteristics (age, gender, education, entrepreneurship and network of experience), company characteristics (life span of the company, size of the company, type of company and property, plant and equipment) and financial management practices of the company (financial information, business plan, and capital budgeting and management of working capital).

Financial literacy plays a vital role to increase the chances of access to finance for microenterprises. Studies in developing countries examined the moderating effect of financial literacy on SMEs' access to finance and growth. Studies found that financial literacy has a positive and substantial impact on the relationship between financial literacy and access to finance in developing countries (Adomako et al. (2016); Neneh (2016); Junoha et al. (2019); Hussain, Salia and Karim (2019); Bongomin et al. (2017)). Further, Jabbouri and Farooq (2020) shows that firms with an inadequately educated workforce are more likely to experience financing obstacles than other firms. The authors argue that poor performance and lack of technical expertise are some of the reasons behind greater financing obstacles experienced by these firms. The study provides robust results across different geographic regions. The authors also found that firms with an inadequately educated workforce are more likely to seek informal credit for financing their short-term (working capital) and long-term (capital expenditures) capital requirements.

Beck and Hoseini (2014) conducted a study on India's informal and formal manufacturing sector and their financing. Authors found that financial deepening in terms of increasing banking outreach can increase the productivity of formal firms; however, an effect on informal financial firms. There is a need to reduce the entry barriers for informal firms into the banking sector. Kaur, Kaur and Kanojia (2021) examined the effect of access to finance on firm level innovations in India. The study found that funding from state-owned banks or any other government institutions increases the innovation activities in the firms. By reducing the collateral requirement for financing affect firms' innovation significantly. Other factors like the size of the firms, ownership structure, and location of the firms also affect the innovation performance of the firms.

The above studies showed that access to finance is the major problem that affects MSMEs' performance in developing countries. It confirmed that various factors affect access to finance substantially. In this study, authors tried to explore the multiple factors in developing countries like India which affect the access to finance for microenterprises. The significant factors are robust business plan, financial statements, location of the firms, credit worthiness of the borrowers, financial literacy, lack of financial documents, registration of the firms, availability of the collateral, the life cycle of the firms, tedious process of banks, lack of credit history etc. The study incorporated all these factors in the questionnaire and conducted an extensive survey in the five districts of MP to know the significant factors which affect the access to finance for microenterprises.

Why This Study

This study is crucial for a state like MP, where 26.74 lakh MSMEs are available, and more than 80% are informal, where access to finance is the major hindrance. At the state level, no database of informal enterprises is available, which makes it difficult to assess their performance. Microenterprises are crucial for the growth and development of any economy. They create more than 70% of the employment. Limited access to finance is a significant hindrance to the growth of MSMEs. However, the access to finance problem does not affect all enterprises equally. While commercial banks generally finance larger firms, smaller individual loans have been catered by MFIs and SHGs. Between these two groups, there is a ‘Missing Middle’ of enterprises with financial needs that are not met by the current market. This missing middle mostly consists of small/tiny enterprises not registered under MSME with loan demand up to INR 5 lakh, a segment beyond the financing of MFIs and SHGs and too little for commercial banks. In MP, no such studies are available to know the status of microenterprises, their performance, and the factors that can affect the performance of microenterprises in the state.

In this background, this study was set up by AIGGPA in collaboration with the MSME department (Govt. of MP). The study analyses the setup on formal and informal channels of financing through a structured questionnaire. It focuses on sources of finance available for tiny enterprises, reasons for using particular sources of finance, awareness about other formal and informal channels and issues in accessing formal sources of finance, factors affecting access to finance and analyzing concerns of demand and supply.

Objective of the Study – Demand Side

The objectives of the study are:

- To identify the prevailing scenario of financing through formal and informal channels amongst micro-enterprises in MP.
- To extract the factors which affect the access to finance and examine its impact on access to finance.
- To suggest measures that would enable better access to finance & expansion of financing options through different channels in MP.

Objectives of the Study – Supply Side

The objectives of the study are:

- To ascertain the challenges faced by formal financial institutions in expansion of financing and efficiently servicing loan aspirants.
- To identify the critical process and policy gaps impacting the access to finance to small businesses/tiny enterprises in MP.

- To suggest measures and recommendations that would enable better access to finance & increase outreach among small businesses.

Methodology

The current study is divided into two phases; phase one explores the issues related to access to finance from the micro-enterprises view, i.e., demand-side; phase two delves into the concerns and challenges of the institutions in accessing finance for micro-enterprise, i.e., the supply side. Therefore, the study team has used a descriptive research design involving several methods to collect and analyse the data.

Sampling

For demand-side analysis of access to finance, the study has primarily collected data from micro-enterprise owners (respondents). These respondents were from five districts of MP: Tikamgarh, Rewa, Indore, Jabalpur and Khargone. The selection of districts was made to cover the geography of the state. Further, the study team selected the micro-enterprise in rural and urban areas of these districts.

For supply-side issues of access to finance, the study team conducted interviews of officials of banks, MFIs, other financial institutions, district industrial centres, MSME department and Directorate of Institutional Finance, MP. The interview respondents were from the above-selected districts and a few Government Department officials from Bhopal, MSME and DIF.

Data Collection

The study collected primary data of respondents from 509 micro-enterprise owners (Table 7) from the selected districts using the structured schedule using the mWater portal.

Table 7 Sample for Demand Side

District	Number of Respondents
Indore	122

Tikamgarh	108
Rewa	99
Khargone	106
Jabalpur	74
Total Sample	509

The study team conducted 12 interviews with various officials of the banks, FIs, other institutions and Government officials. The list of interview respondents is given in table 8. The responses of all the interview respondents are recorded using a voice recorder.

Table 8 Details of Interview Respondents

S.N.	Details of Interview Place
1	Manager, Bank of Baroda, Khargone
2	Manager, Bank of India, SME Branch, Khargone
3	General Manager, DIC, Khargone
4	Manager, DIC, Tikamgarh
5	Branch Manager, ESAF (MFI), Bhopal
6	Branch Manager, MP Gramin Bank, Khargone
7	Branch Manager, MP Gramin Bank, Kari
8	Branch Manager, MP Gramin Bank, Tikamgarh
9	Branch Manager, Spandana Sphoorty Financial Limited (MFI), Bhopal
10	Branch Manager, SBI, Tikamgarh (Lead Bank)
11	DIF, Bhopal
12	MSME Department, Bhopal

The study also collected secondary data related to access to finance, including the number of MSMEs in MP, various Government policies, and schemes to provide finance to them.

Questionnaire Design and Pilot Testing

The study team designed a schedule to collect the responses from the respondents. The schedule was divided into three main sections. The first section included questions on the demographic profile of the micro-enterprise owners. The second section consists of questions on the profile of micro-enterprise, including financial and infrastructure aspects of micro-enterprises. The third section included the questions related to major (factors) challenges and issues the enterprise owners face in accessing the finance.

After completing the schedule, the study team conducted the pilot testing of the schedule in Indore district and made the necessary changes. The major changes were related to factors affecting access to finance.

For supply-side issues of access to finance, the study framed ten major questions which were related to scenario of access to finance in the state, the role of the institutions, policies/steps of the department/institutions in improving access to finance for micro-enterprises, challenges and issues at the institutional level and micro-enterprise levels.

Data Analysis

The study has adopted quantitative and qualitative data analysis techniques to analyse the primary data collected from different respondents. It applied **descriptive analysis, Exploratory Factor Analysis (EFA), logistic regression and cluster analysis** to analyse the responses of the structured schedule and **thematic analysis** to analyse interview responses. The study team used SPSS 20 for analysing responses of micro-enterprise owners and ATLAS.ti to analyse the interview responses.

The study applied EFA to identify the relevant factors out of the selected variables based on the literature. EFA identifies the factors from a large number of statements used in the questionnaire to understand the factors. In the current study, the authors have used 21 variables to identify factors related to access to finance for micro-enterprises in M.P. EFA reduces these statements in factors that can be further used to determine their impact on access to finance.

After identifying the factors, the study has used logistic regression to see the effect of these factors on access to finance.

The study has employed cluster analysis to identify a similar group of respondents who share similar ideas for access to finance for micro-enterprises. Based on the data, the study first applied **hierarchical cluster analysis** and identified four major clusters and then grouped them using K-means cluster analysis.

In the thematic analysis, the study team coded the responses of the interview audio scripts and identified the relevant codes. Further, these codes are clubbed together to make a particular theme.

Limitation of the Study

- The team was constraint by the prevailing situation of COVID in the state and the availability of entrepreneurs for data collection in the field. Another challenge was the mindset of entrepreneurs having suffered the loss of business during COVID time and preparing entrepreneurs to participate in the study.
- Lack of secondary data availability on tiny enterprises status of financing scenario was a major challenge faced by the team.
- The articulations of views from entrepreneurs were one of the big challenges. There was a lack of relevant data on tiny enterprises or small loans in the districts as well as in the State.

Results and Discussion – Demand Side

The section discusses the results of demand-side (micro-enterprise owners' responses), which includes a descriptive analysis of responses, EFA, logistic regression and cluster analysis.

Descriptive Analysis

Urban-Rural Spread

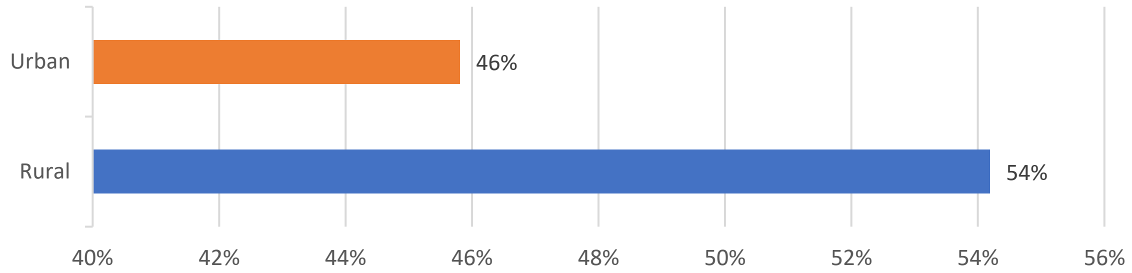


Figure 3 Urban Rural Composition

54% of respondents were from rural areas, whereas 46% respondents were from urban areas. More emphasise was put on covering rural geography.

Entrepreneur Profile

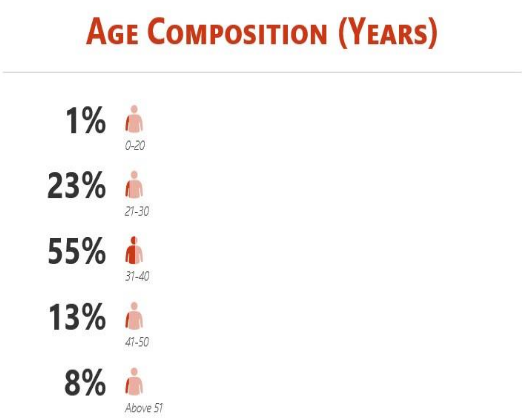


Figure 4 Age Composition

Overall, more than 79% of the respondents are younger generation respondents, with a maximum of 55% of respondents (284) were from the 31-40 age segment, followed by 23% from 21-30 age bracket, 13% from 41-50 age bracket and 8% in the age bracket of above 50 years of age.

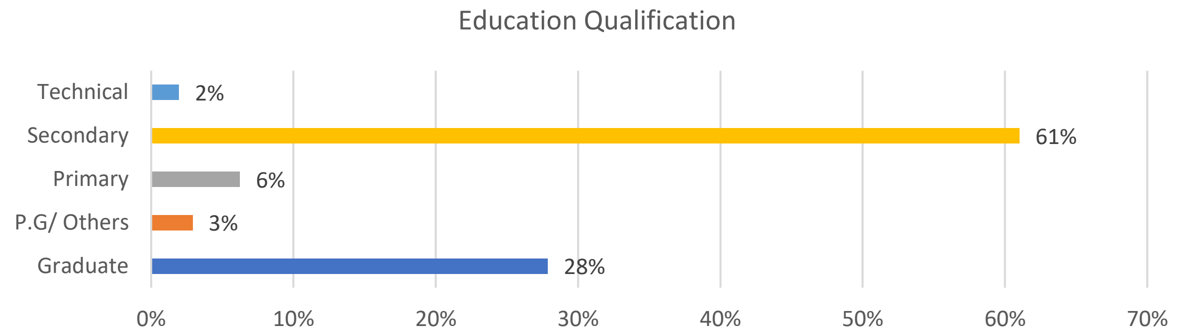


Figure 5 Education Qualification

Only 28% of entrepreneurs are graduates, 61% have completed secondary level, 6% have studied up to primary level, only 3% are post graduate, and 2% possess technical education.

Enterprise Profile

Industry Segments

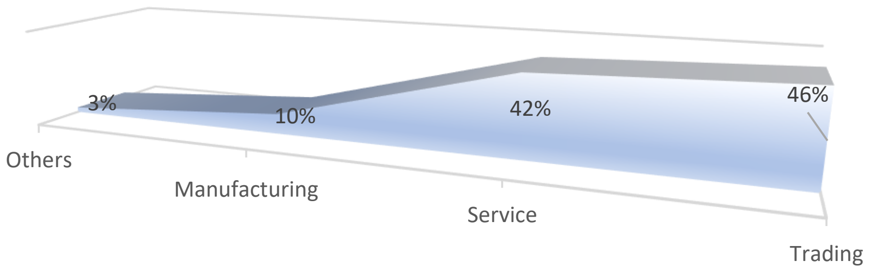


Figure 6 Industry Segments

46% of entrepreneurs are from the trading sector, followed by 42% in the service sector and only 10% in the production/manufacturing sector.

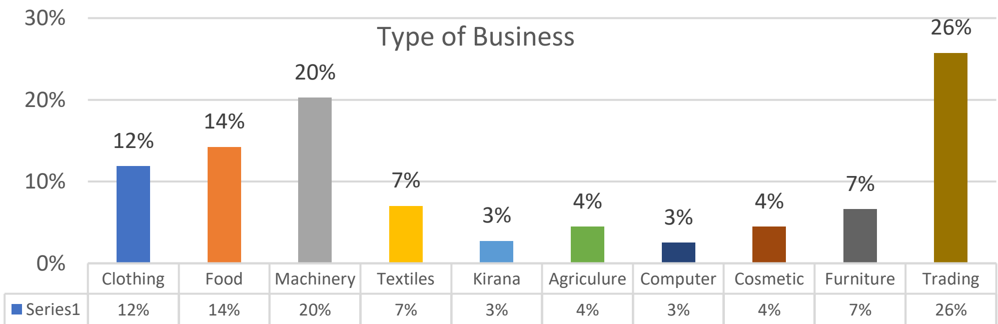
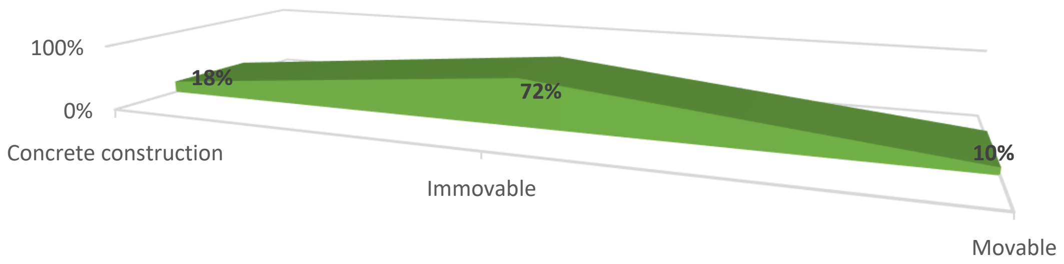


Figure 7 Business Types

Out of total samples 26% of entrepreneurs are from the trading segment, followed by 20% in the auto parts and machinery segment, 14% in the food segment, 12% in clothing, 7% in textile & furniture, 4% in agriculture and cosmetics, and 3% in computers & Kirana stores.

Infrastructure Status

Figure 8 Infrastructure Status



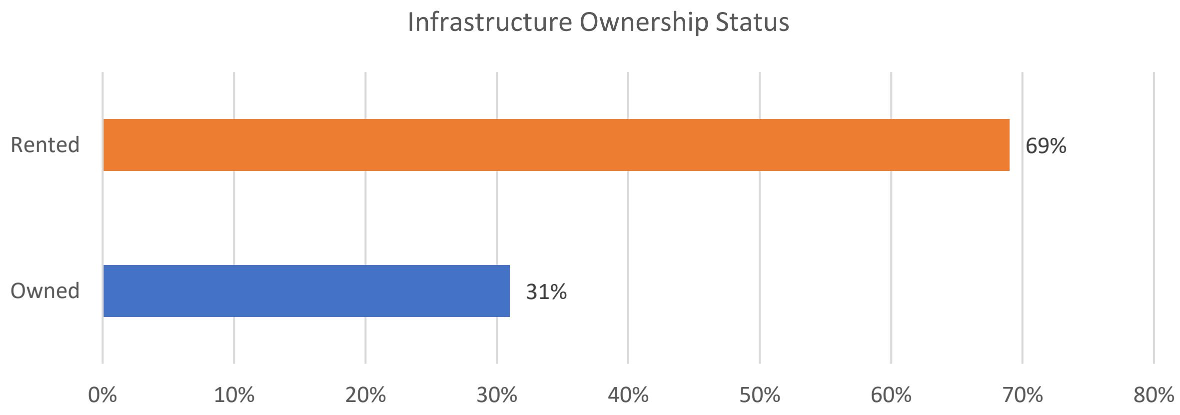


Figure 9 Infrastructure Ownership Status

69% of entrepreneurs run their business from rented premises, and 31% have their premises. 72% of the premises are immovable structures (concrete), and only 10% of premises are movable, indicating stable business enterprises.

Registration/Compliances & Documentation

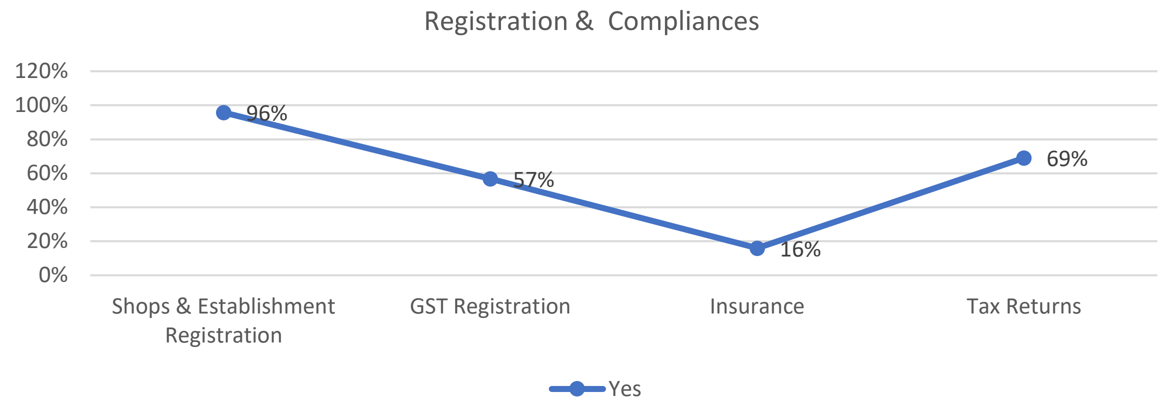


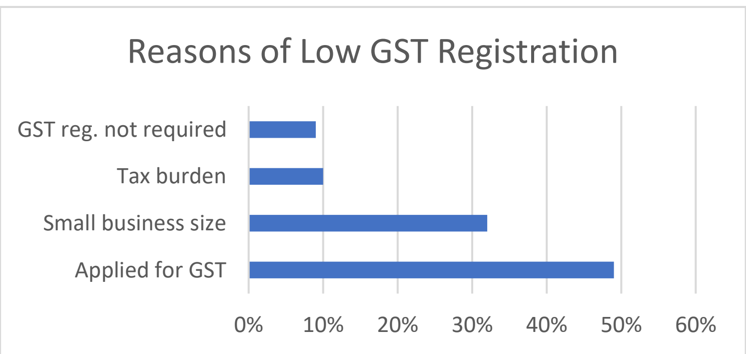
Figure 10 Registration & Documentation

96% of entrepreneurs are registered under the shops and establishment act, while 57% are registered under GST. It indicates the reliability and stability of entrepreneur's businesses and are serious businessmen.

69% of entrepreneurs have filed tax returns at least once in the last three years. Entrepreneurs usually hire local chartered accountants for filing returns and preparing balance sheets and profit and loss statements of the business. Only 16% of entrepreneurs have insurance (mainly fire and theft).

32% of entrepreneurs stated that their business is very small for GST registration. 10% indicated taxation as an impediment for GST registration, and 9% stated that they do not require SGST. Entrepreneurs stated that small businesses do not get much benefit from GST registration and the compliance cost for small businesses is very high. Most of them are registered under the composite scheme of GST, which is not remunerative for small businesses.

F.



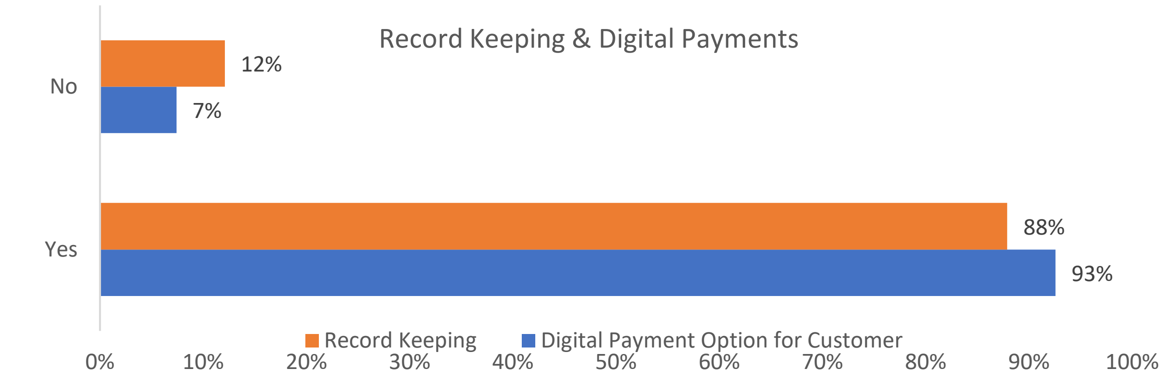


Figure 12 Record-Keeping & Digital Payments

It shows entrepreneurs willingness to embrace technology and the usage of technology by entrepreneurs. 93% of entrepreneurs keep some record books of their business, and 88% have adopted digital payment to receive payments from customers and make payments to suppliers. It also indicates their reliance on formal transaction systems.

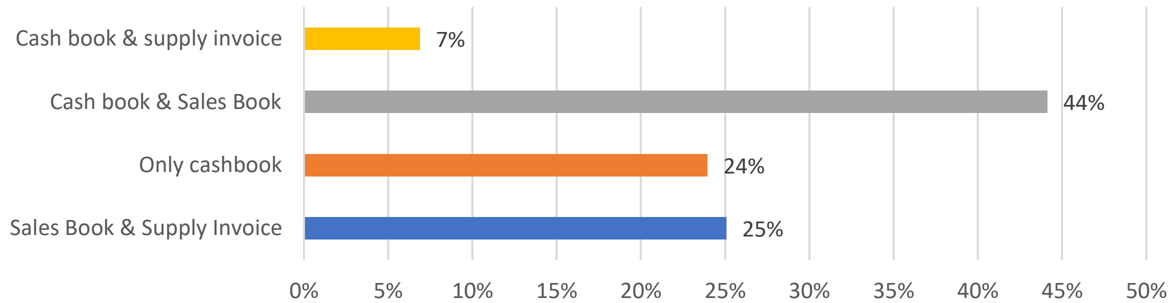
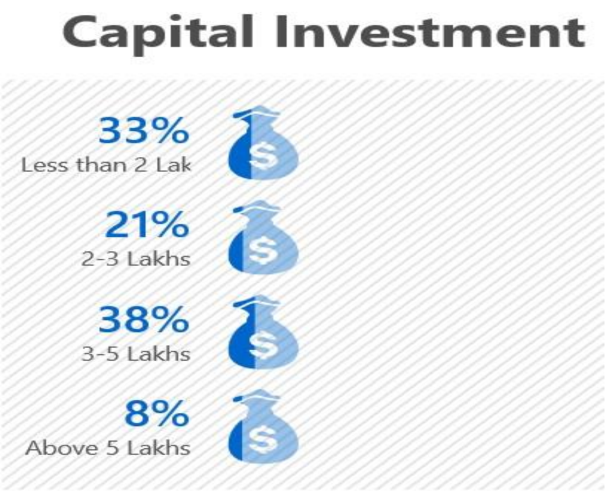


Figure 13 Types of Records

44% of entrepreneurs-maintained cash book and sales book, 24% maintained only cash book, 25% maintained sales book and supply invoice, and 7% maintained cash book and supplier invoices. However, these are manual records and are not in shape to be used for accessing finance, particularly from banking institutions. Most entrepreneurs do not maintain a balance sheet and profit and loss account, which impedes the availability of finance from banks.

Capital Investment Segments



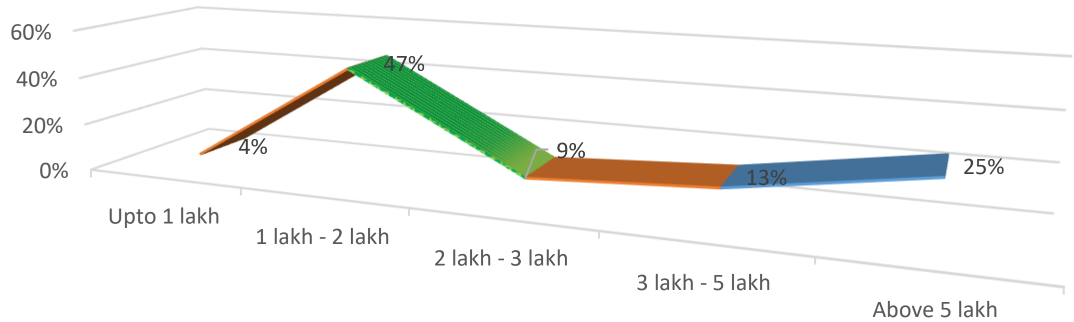
33% of respondents belong to the segment of less than 2 lakh capital investment, 38% of respondents were from the capital investment segment of 3-5 lakh, however, only 8% entrepreneurs investing more than 5 lakhs in setting up their business.

Figure 14 Capital Investment Category

Average Inventory of Businesses

The average inventory kept by entrepreneurs is around Rs. 3.4 lakh, with 47% of entrepreneurs keeping inventory between Rs. 1-2 lakh, 25% keeping above Rs. 5 lakh and only 4% having inventory less than 1 lakh.

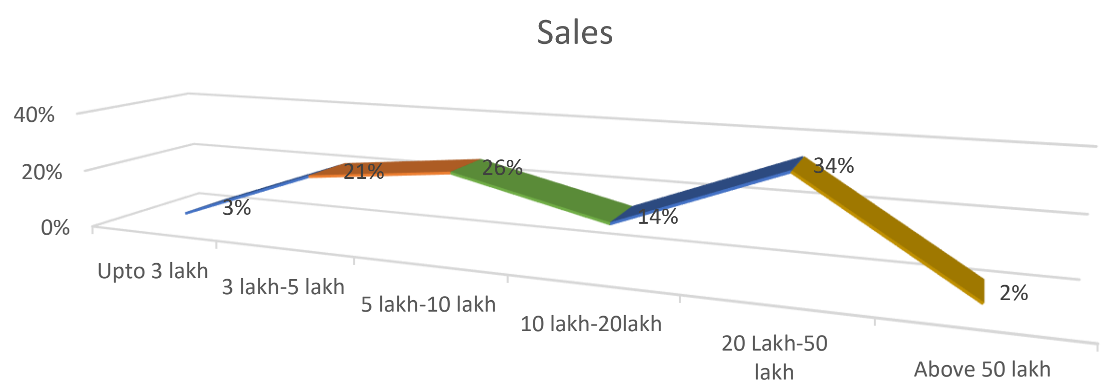
Figure 15 Average Inventory



Sales Volume

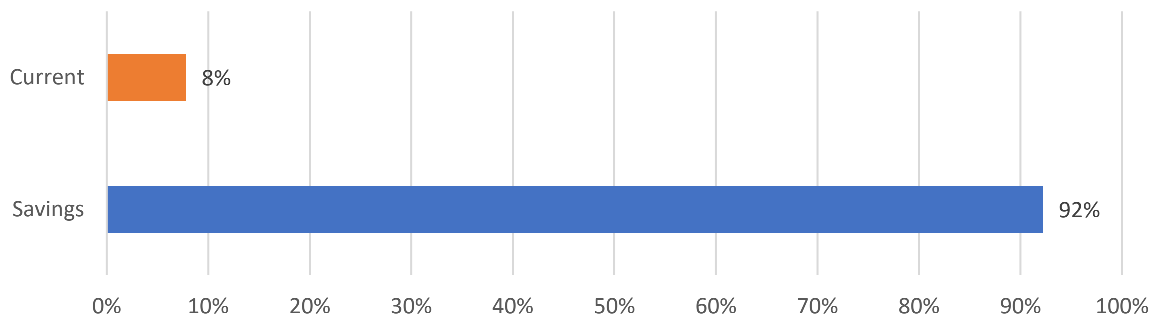
Average sales of entrepreneurs in the sample are around Rs. 16.6 lakh with 34% of entrepreneurs in sales volume of Rs. 20-50 lakh, 26% in the category of Rs. 5-10 lakh and 21% in the category of Rs. 3-5 lakh, only 3% entrepreneurs, reported sales volume of up to Rs. 3 lakh and only 2% entrepreneurs reported sales volume of above Rs. 50 lakhs annually.

Figure 16 Sales Volume



Type of Accounts

Figure 17 Type of Accounts

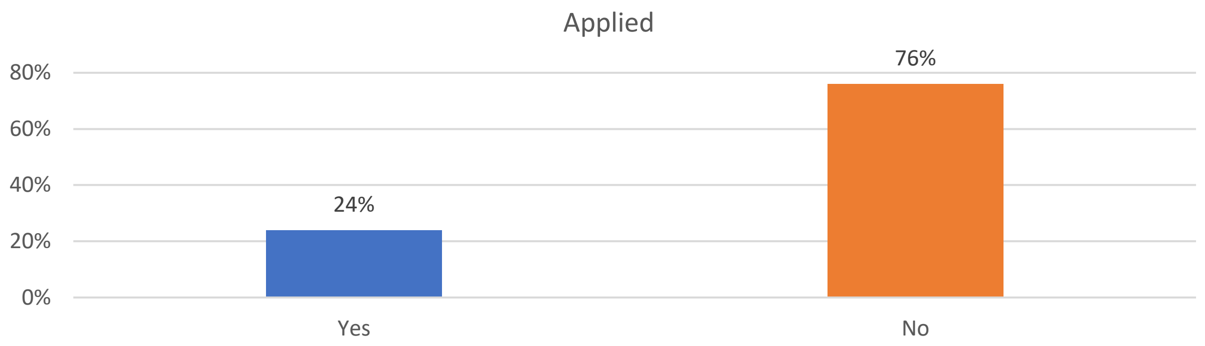


92% of entrepreneurs reported using savings account for their business, and only 8% reported using current accounts for their business. Entrepreneurs stated that current account maintenance is costly for them, and most of them never thought of having a current account as their business is running smoothly with a savings account.

It is one of the impediments in access to finance wherein banks emphasise the current account's requirement and prefer to see the transaction in the current account of business while taking financing decisions.

History of Access to Finance

Figure 18 Applied for Loan



Only 24% (123) entrepreneurs have applied for business finance. Few entrepreneurs have applied multiple times for business loans. Out of 123 entrepreneurs, only 33% stated that they could receive finance from financial institutions.

A large proportion of entrepreneurs who have not applied for business loans indicates a lack of trust and confidence in financial institutions. It indicates a very low level of penetration, lack of information and lack of confidence in entrepreneurs in the segment of small business loans (Rs.1-5 lakh).

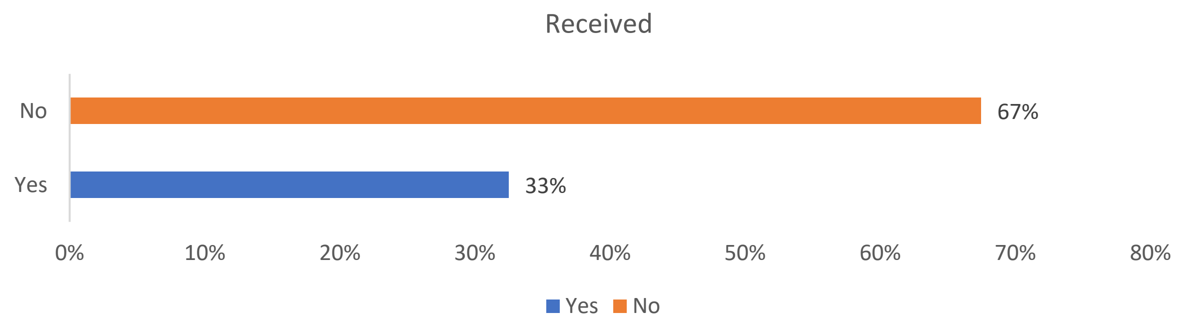
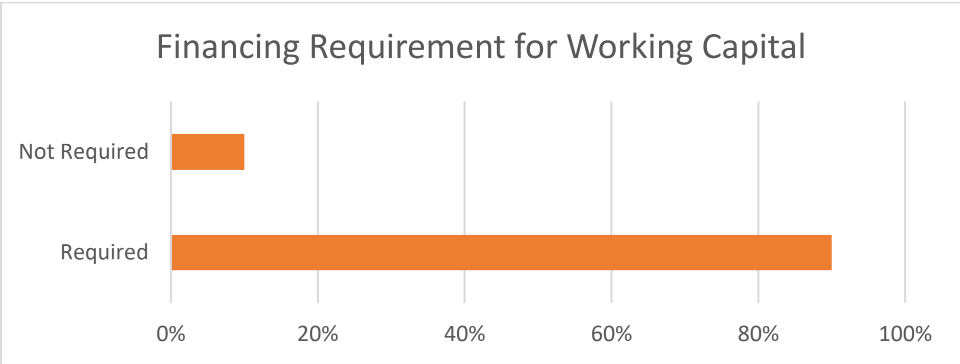


Figure 19 Received Loan

Requirement of Finance

Figure 20 Financing Requirement



90% of entrepreneurs stated that they require loans for working capital and investment capital for expansion and diversification. Only 10% of entrepreneurs stated that they have enough finances. The high percentage (90%) is also due to COVID impact on their business and erosion of equity and savings of entrepreneurs. Almost 60% of entrepreneurs have consumed or eroded around 70% of their savings to maintain the business during COVID.

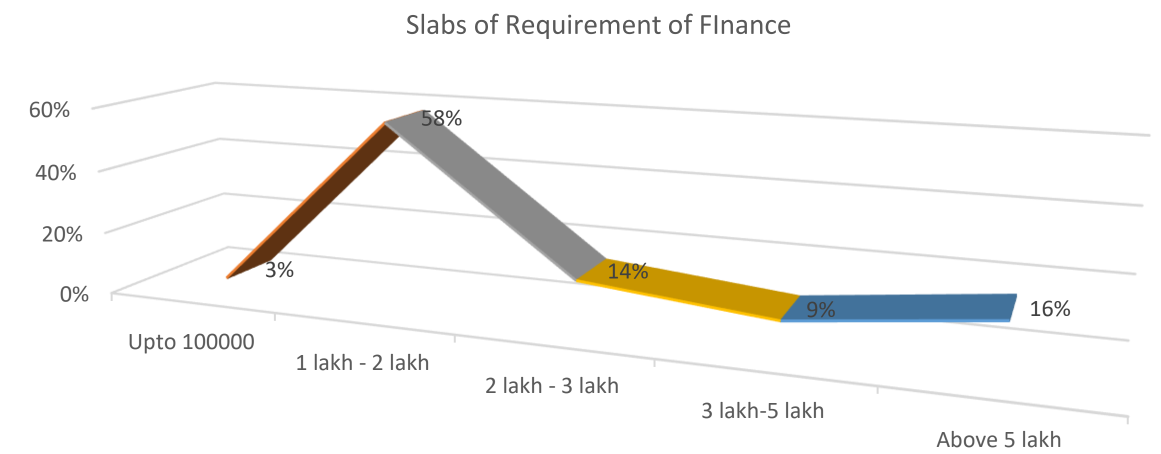


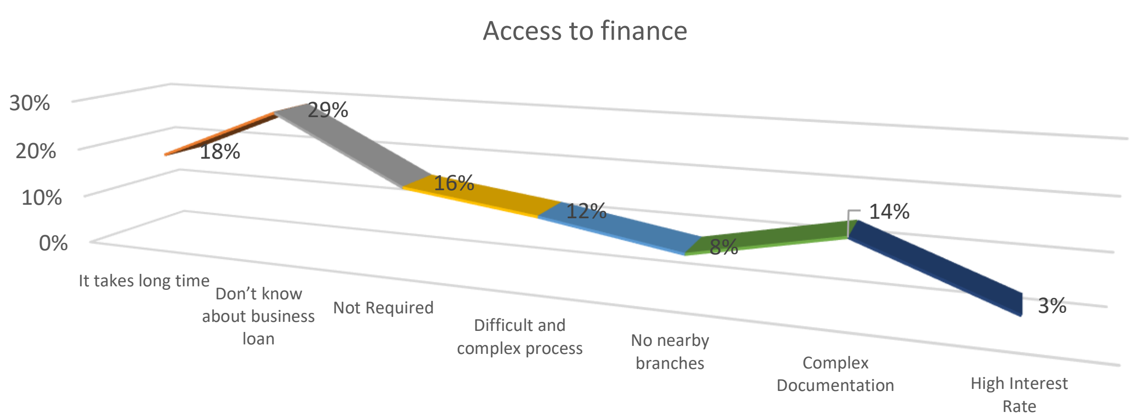
Figure 21 Requirement Slab of Financing

58% of entrepreneurs stated they required between Rs. 1-2 Lakh for working capital, while 14% stated they needed Rs. 2-3 lakh, while 16% of entrepreneurs requires above Rs. 5 lakh for expansion and investment. Only 3% of entrepreneurs stated a requirement of up to Rs. 1 lakh.

Constraints of Access to Finance

29% of entrepreneurs stated they did not know how to apply for a business loan, 18% said it takes a long time, hence, we have not applied. However, 12% stated it is a very complex process, and often we spend too much time fulfilling the formalities, and 14% stated the business loan has complex documentation. 8% respondents stated lack of nearby branches, and only 3% conveyed higher interest rate as one of the reasons for not availing or applying for business loans.

Figure 22 ACCESS TO FINANCE Constraints



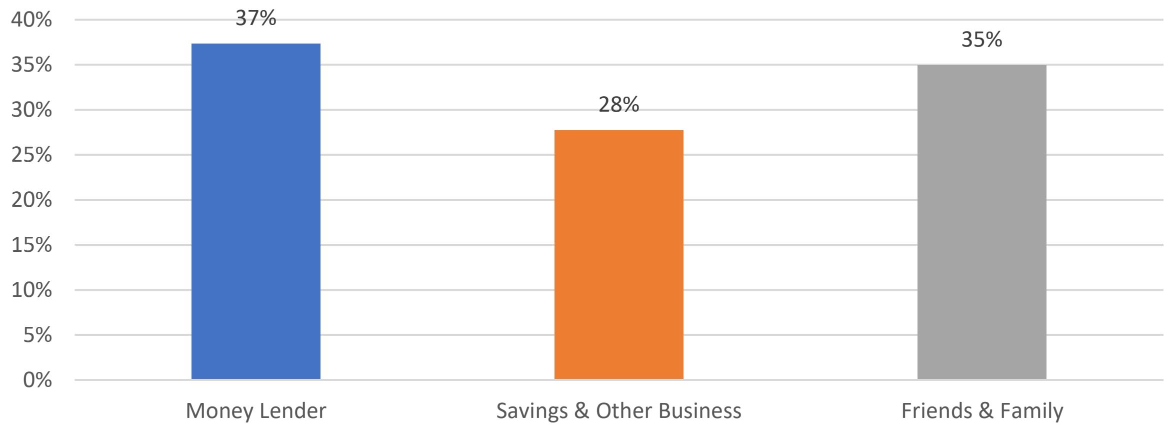
Sources of Finance

Public sector banks and RRBs have the largest share of business loans among entrepreneurs who have availed loans (30%), followed by private sector banks and NBFCs (28%) and MFIs contributing around 15% of entrepreneurs demand.

> Lack of knowledge on small business loans, complex process and longer gestation period in sanction of loans are the main impediments/challenges sited by micro entrepreneurs in access to finance.

The average loan availed from formal financial institutions is around Rs. 1.2 lakh in the form of a term loan, minimum loan starting from 25 thousand and a maximum loan of Rs. 10 lakhs. The interest rate in the range of 7 to 26 percent and loan duration ranged from 1 to 3 years. Some of the current loan features, which entrepreneurs did not like, were interest rate, duration of the loan, higher instalments, and flexibility in repaying the loans (prepayments/advance payments). Entrepreneurs also stated that a cash credit limit would be beneficial for small entrepreneurs as a constant working capital requirement.

Figure 23 Sources of Finance-Informal Sources



Entrepreneurs, who could not access finance from formal financial institutions and who have never applied for business loans, met their demand of finance from Money lenders (37%), friends and family (35%) and savings and income from other businesses (28%). The average loan available from these sources is around 2 lakhs with an average interest rate of 28% and no defined duration and repayment period.

50% of Entrepreneurs stated that their business is suffering from lack of finance and availing credit from informal sources.

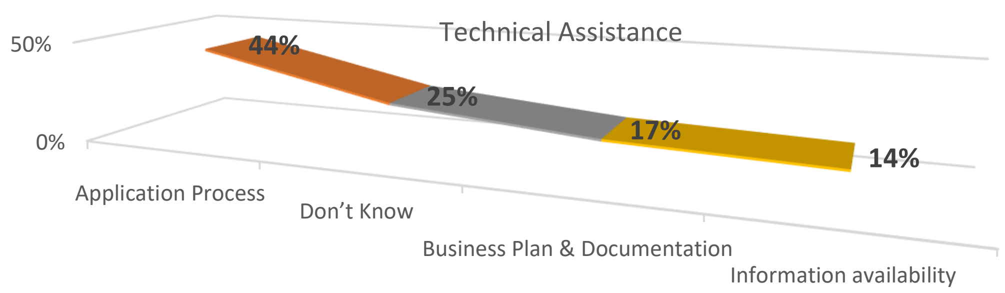


Figure 24 Technical Assistance

Entrepreneurs have stated they need technical assistance for accessing business loans from formal financial institutions. 44% of entrepreneurs said they need assistance in the application process, 17% stated they need assistance in business plan development and documentation, and 14% stated they need assistance on business loans and schemes for entrepreneurs.

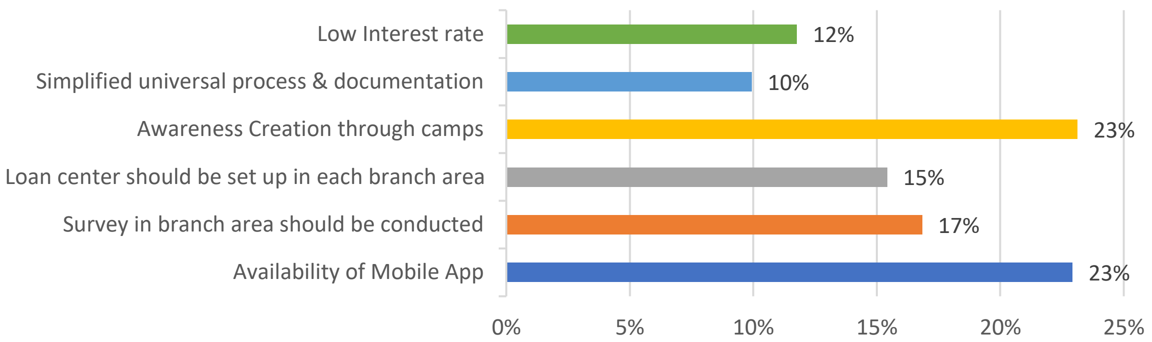
Entrepreneurs also stated that specific and targeted promotion schemes for small businesses should be launched with a capping of finance up to Rs. 5 lakhs with a combination of margin money contribution rather than subsidy involvement as experiences of dealing with subsidy related schemes, in general, is not positive.

Suggestions From Entrepreneurs

Entrepreneurs in the study sample suggested measures/initiatives that could be taken to increase penetration of small business loans, improving access, information and confidence to access business finance.

23% of entrepreneurs suggested that the Govt./MSME or SLBC should introduce a mobile based application for loan application and sanction, wherein all the documentation and formalities can be conducted by entrepreneurs online, and they are also able to see the status of their applications, reasons for rejection and offers by different banks. They stated that one of the big issues they face is that they never know the status of their applications and the reasons for rejections.

Figure 25 Suggestions to improve ACCESS TO FINANCE



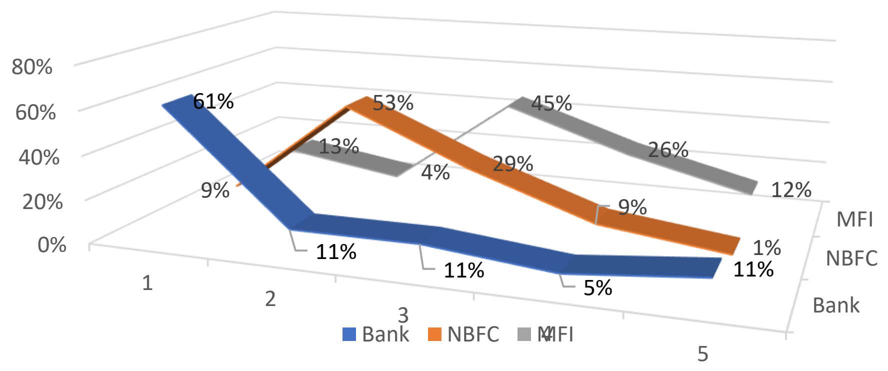
Another 23% of small businesses suggested holding awareness creation camps about MSME and business loans in major markets, rural haats and gram panchayats to improve the knowledge deficit.

17% of respondents suggested that an annual survey should be conducted in each branch area to determine the scope, market size and potential entrepreneurs for business loans. Another 15% suggested setting up loan centres in each branch area to plugged access and information gap. 10% suggested for universal documentation and process for small business loans. Only 12% indicated lower interest rates as a measure to increase the penetration of small businesses.

Awareness Creation, App based application and Sanction process (Digital Lending), Creation of Loan centers and Annual survey of small businesses in Branch operations area are some of the key suggestions for improving access to Finance for small businesses by Entrepreneurs during the study.

Preferred Institutions of Finance

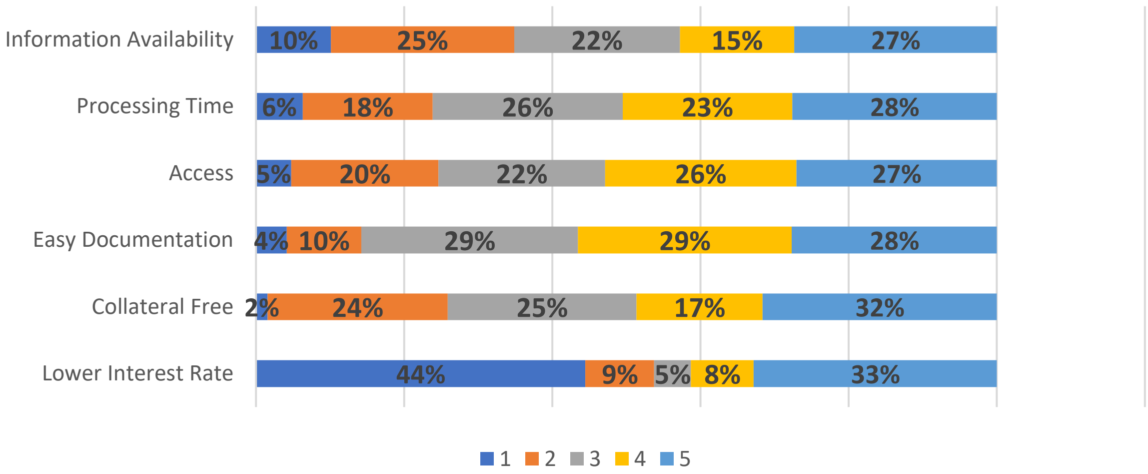
Figure 26 Institution Preference Rating (1 indicates least and 5 indicates most)



The rating scale on the preference of institutions for financing for business indicates that currently, entrepreneurs least preference is public sector banks, wherein 61% gave the least score on preference. MFIs came as a preferred source of the loan with 45% & 26% giving medium & high scores, while NBFCs are also preferred, with 29% getting medium scores and 9% getting high scores.

Indicators Influencing choice for source of financing

Figure 27 Indicators of Access to Finance (1 indicates least and 5 indicates most)

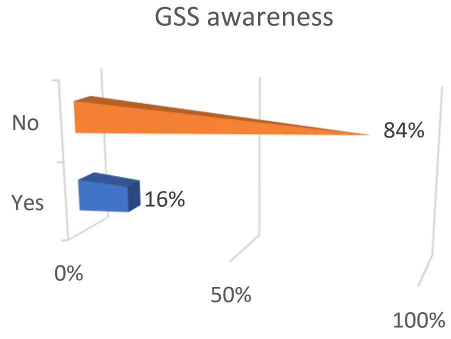


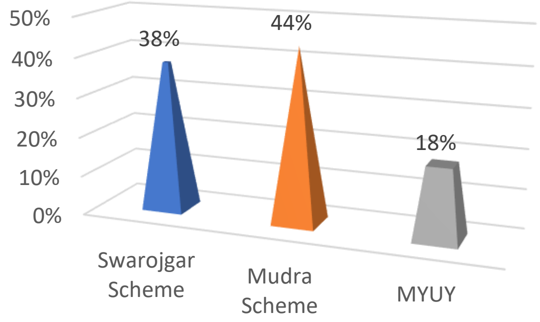
Entrepreneurs rated indicators that impact their willingness, ability and access to business finance. Interestingly 44% of entrepreneurs gave a very low score to interest rate, while 33% of entrepreneurs gave it a high ranking, which suggests a mixed bag but indicates lower importance in decision making.

The biggest factors stated by entrepreneurs are documentation (almost 58% giving it high and very high ranking), followed by access to formal institutions (nearly 53% giving it high and very high ranking) and processing fee (51% giving it high and very high ranking) followed by Information availability (42% giving it high and very high ranking)

Awareness about Govt. Schemes

Figure 28 Awareness about Govt. Schemes



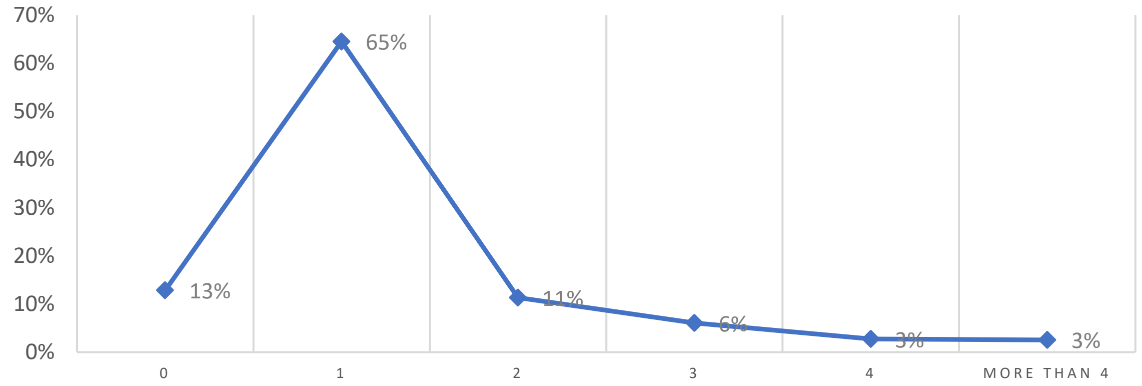


84% of entrepreneurs stated that they do not know about various Government schemes on access to finance. Entrepreneurs stated they believe for their segment; there are only a handful of schemes available.

44% of entrepreneurs stated that they are aware of the Mudra Scheme of the central government, 38% stated they are aware of the Mukhya Mantri Swarojgar scheme, and 18% stated they knew about the Mukhya Mantri Yuva Udyami Yojana scheme. Entrepreneurs stated that the experience of availing government scheme financing is not very positive due to subsidy driven approach and process and advantage of this is taken by most of the bigger enterprises/entrepreneurs, who do not need subsidy. Entrepreneurs stated that a specific scheme for small businesses (up to Rs. 5 lakh) should be launched with one-time benefit (rather than subsidy).

Employment Creation

Figure 29 Employment Creation (Beyond self)



Entrepreneurs employ to on an average 02 people, with 65% of entrepreneurs employing 01 person. The average remuneration paid by entrepreneurs is around Rs. 8395 with more than 53% paying less than Rs. 5000 31% paying between Rs. 5-10k and only 16% paying more than Rs. 10k.

District Wise Profile

Rural-Urban Spread

The distribution of Urban and Rural spread remains consistent across districts barring Indore, where the Urban sample (57%) is more than average (46%), and Tikamgarh, where the urban sample is less than the total urban sample in the study.

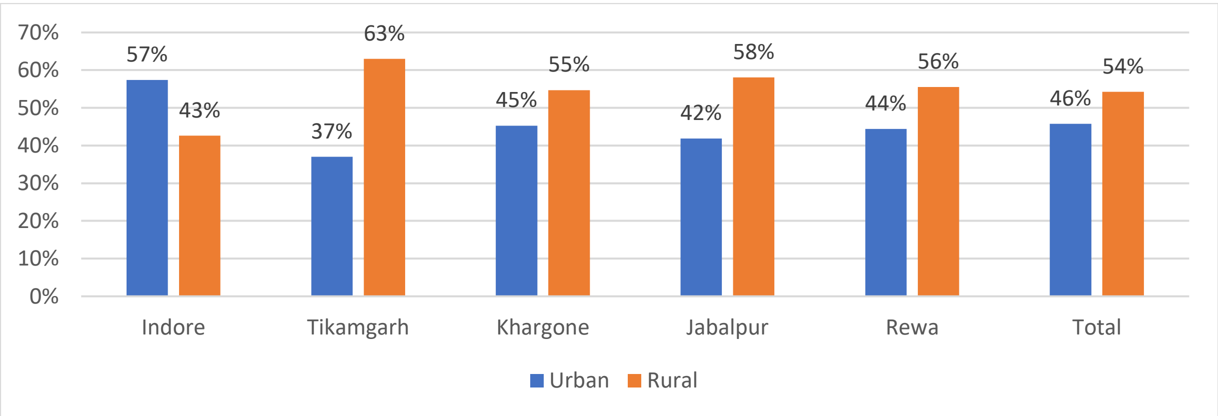


Figure 30 Rural Urban Spread

Age Composition

The distribution of age composition remains consistent across districts barring Tikamgarh and Khargone, where the sample of age group 21-30 is higher than the average. The variance of 7% is seen within this age group in Tikamgarh and Khargone districts.

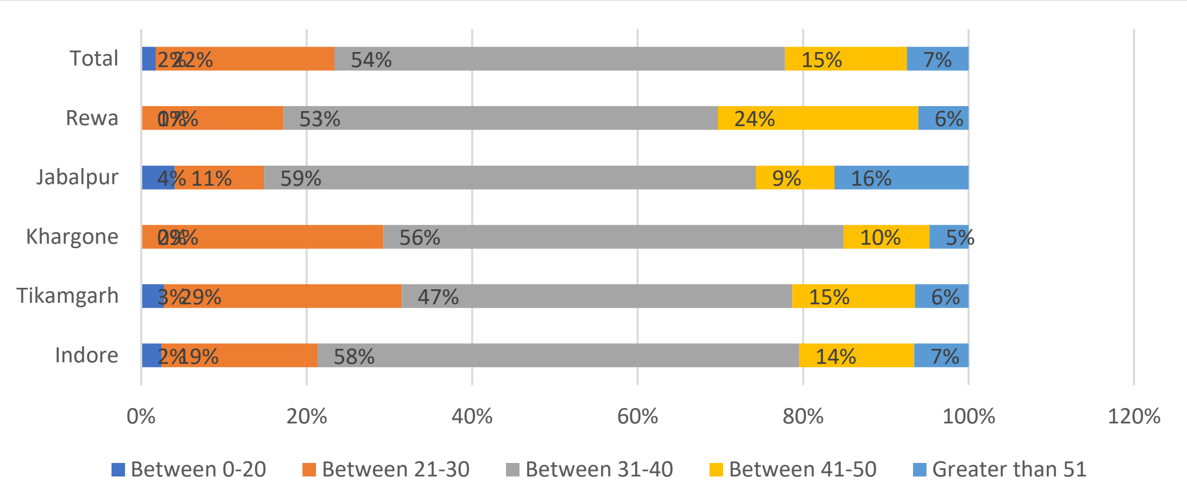
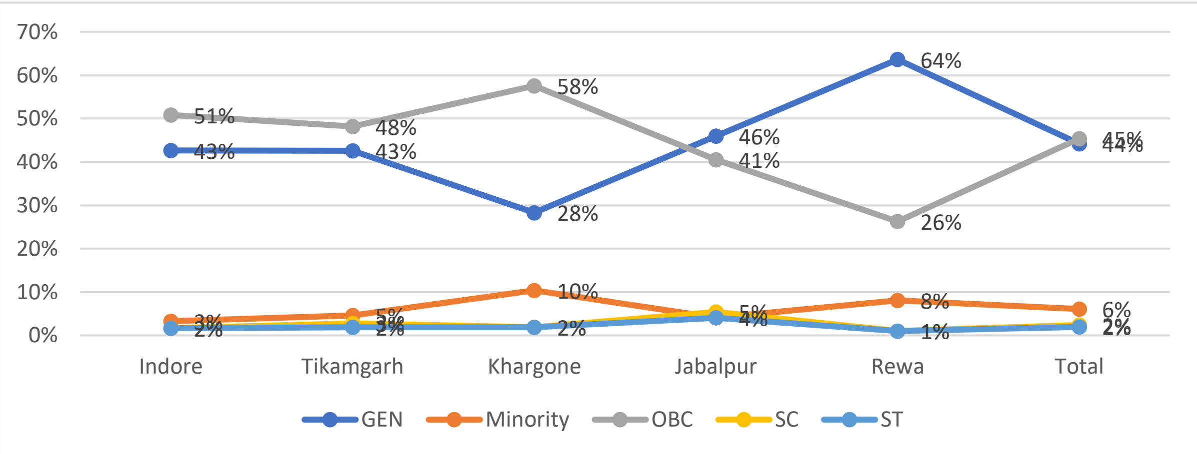


Figure 31 Age Composition

Category Composition

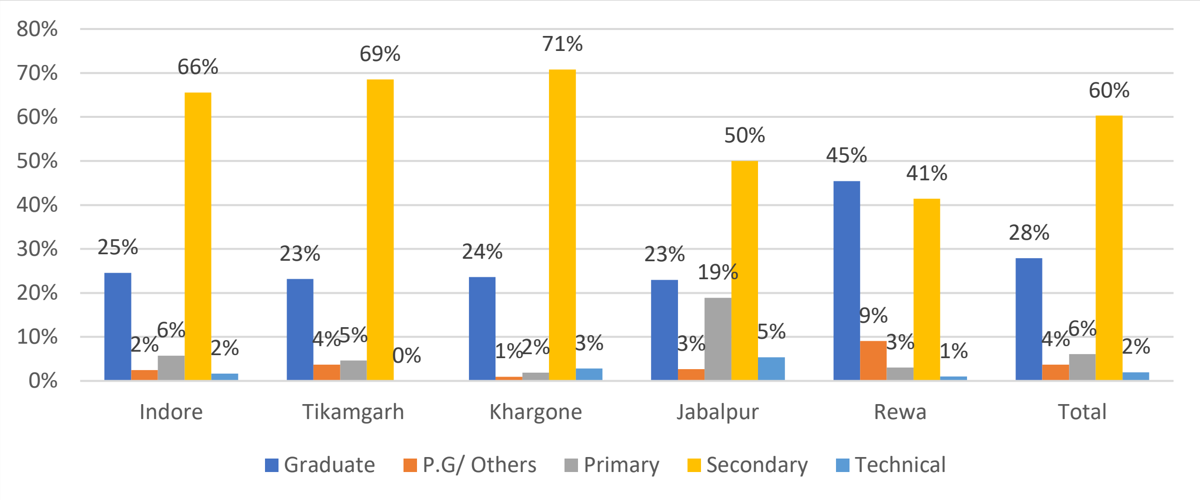
Figure 32 Category Composition



The distribution of category composition remains consistent across districts barring Khargone, and Rewa districts where the general category representation in Rewa (64%) is higher than average 44% similarly representation of OBC category is lower (26%) compared to 45% average. In Khargone district, the representation of the general category is higher 58% against an average of 44%, and similarly, representation of the OBC category is very low, 28% against 45% average representation.

Education Qualification Composition

Figure 33 Educational Qualification



The education qualification composition within districts varies with the average sample across districts but is limited to a variance level of +- 20%. For example, the average representation of secondary education respondents is 60%, with the highest variance of 19% in Rewa, 11 % in Khargone and 9% in Tikamgarh.

Sector Composition

The sector composition within districts in the trading and services sector represents significant variance from average. In the trading sector, Jabalpur, Khargone and Tikamgarh district represents a higher % of trading sector beneficiaries, and Rewa and Indore represent a lower % than the average. The maximum variance is 30% in the case of the Rewa district with low representation and 16% in Jabalpur with higher representation.

Similarly, Rewa and Indore have a higher representation in the service sector, 63% and 29% against an average of 23%. Tikamgarh, Khargone and Jabalpur all have significantly lower representation with a maximum variance level of 40%.

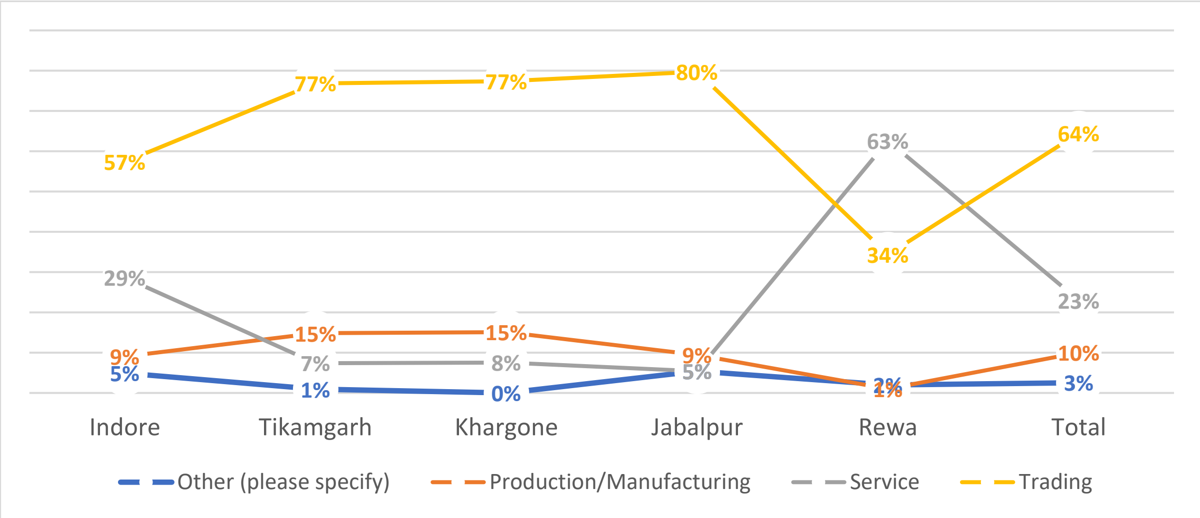


Figure 34 Industry Sectors

Activity Composition

The activity composition matrix shows consistency among the type and nature of activities across the district, with a maximum variance of 13% in trading in Khargone district. Another significant variance is in the textile sector wherein Tikamgarh and Khargone have no representation of the same and agriculture where Jabalpur district does not have representation of agriculture businesses. Overall, the activity/nature of businesses across districts represents similar characteristics and composition.

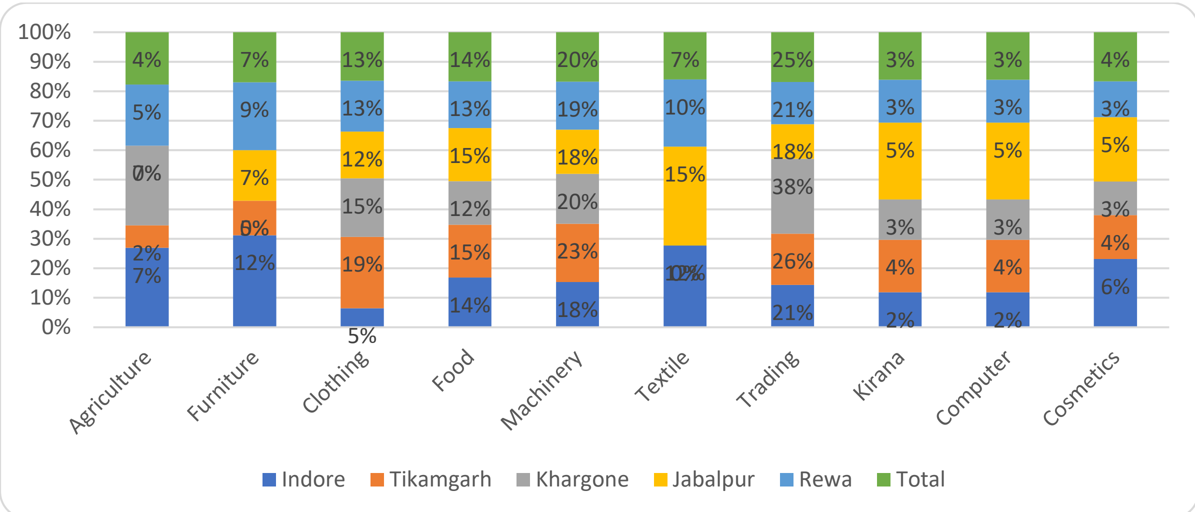


Figure 35 Activity Composition

Premise Ownership

Overall, the premise ownership matrix consists of the representation of average numbers within the district except for Indore, Khargone, and Rewa, representing a higher number of rented premises than average. Tikamgarh represents a higher number of owned premises than average. However, the trend remains more or less the same across districts barring Tikamgarh, wherein the percentage of owned premises is higher than rented premises.

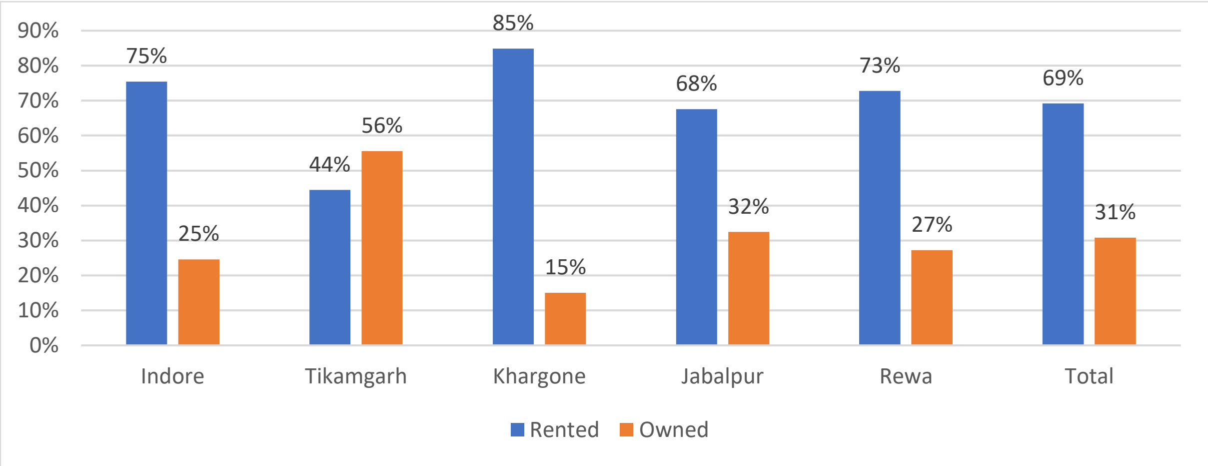


Figure 36 Premise Ownership Status

Regulatory Compliance & Registration

The Shops and Establishment Act registration is consistent across districts, where most businesses are registered, however, Jabalpur showing the least number (82%). In GST registration, Khargone and Tikamgarh are leading districts with 98% and 61% respondents are registered under GST compared to only 27% in Indore and 46% in Jabalpur. Khargone district also stands outliner in Tax Return filing by small businesses wherein 95% of respondents are filing tax returns compared to only 50% in Jabalpur and 49% in Rewa district. The insurance segment is more or less consistent, barring Indore and Tikamgarh showing a significantly lower percentage of insurance.

Table 9 Compliance

	Shops & Establishment Registration		GST Registration		Insurance		Tax Returns	
	Yes	No	Yes	No	Yes	No	Yes	No
Indore	95%	5%	27%	73%	4%	96%	75%	25%
Tikamgarh	100%	0%	61%	39%	6%	94%	60%	40%
Khargone	100%	0%	98%	2%	31%	69%	95%	5%
Jabalpur	82%	18%	46%	54%	15%	85%	50%	50%
Rewa	97%	3%	55%	45%	15%	85%	49%	51%
Total	96%	4%	57%	43%	14%	86%	67%	33%

Documentation

Huge variance within the nature of documentation can be seen across the district, whereas Indore district businesses prefer keeping sales books and invoices than other districts (77%). cashbook and sales book dominate all districts except Indore.

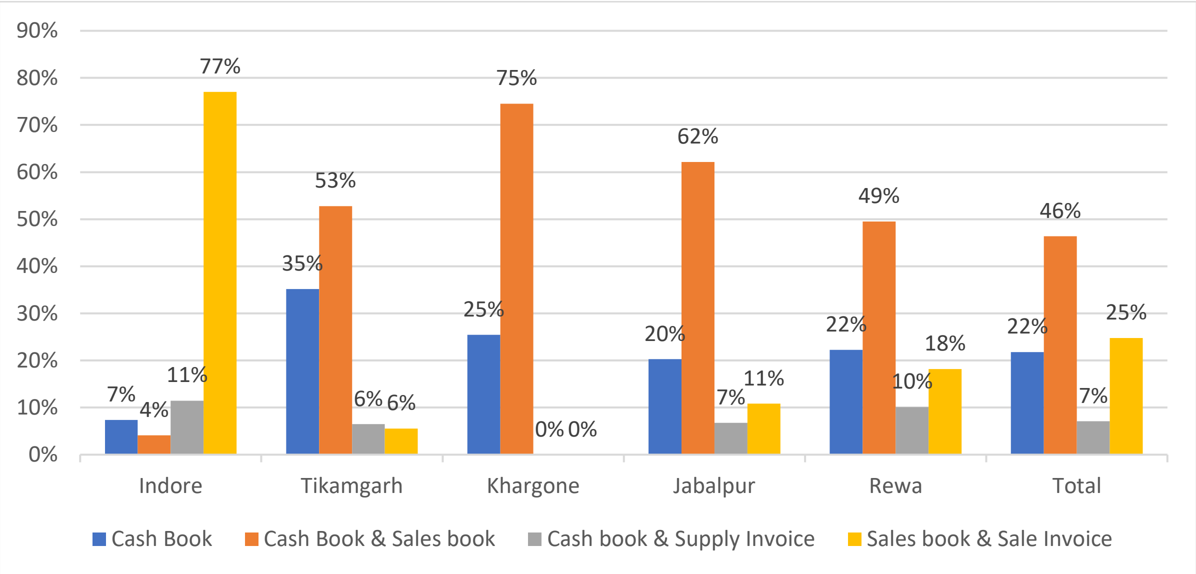


Figure 37 Documentation

Capital Composition

The capital composition segment is overall consistent across districts, with most businesses falling in the range of less than 5 lakh capital requirement. Indore and Tikamgarh districts both have a lower % of businesses with 2-5 lakh capital and a higher number of businesses with less than Rs. 2 Lakh capital investment as against average.

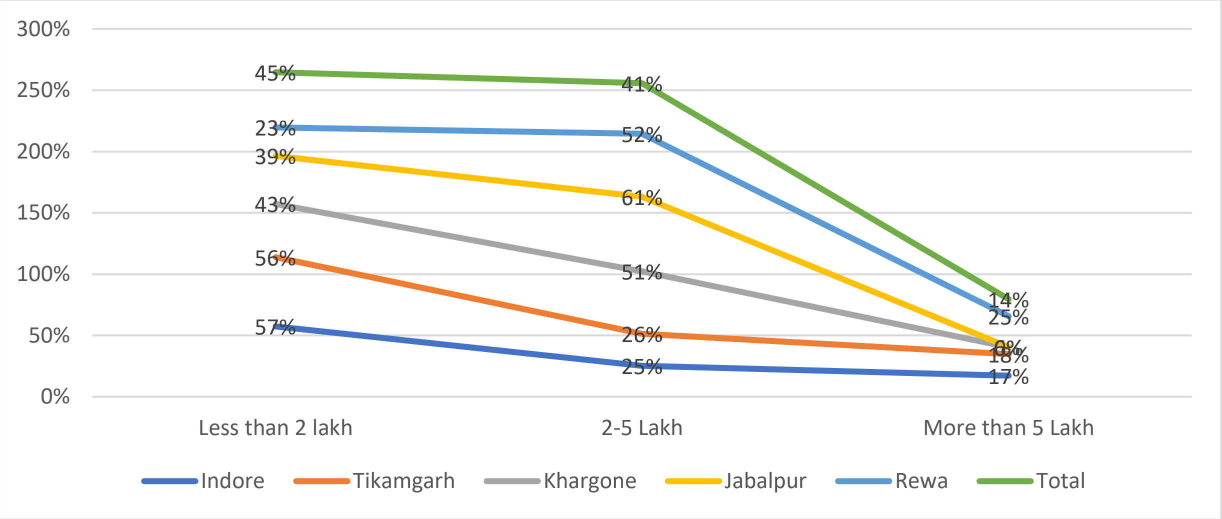


Figure 38 Capital Composition

Inventory Composition

The Inventory composition segment varies across districts, with Rewa (41%) and Tikamgarh (33%) representing a higher level of inventory (above Rs .5 lakh). In contrast, Jabalpur represents a higher percentage of mid-level inventory, and Khargone represents the highest number of Low inventory levels.

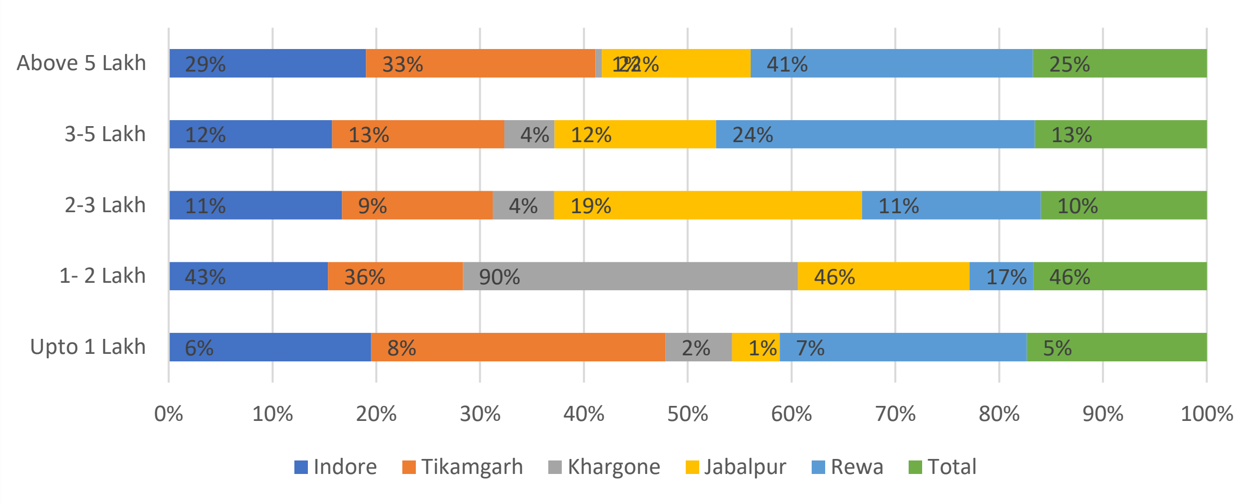


Figure 39 Average Inventory

The sales composition segment is consistent with the overall averages across districts with a maximum percentage share of sales bucket of 20-50 lakh sales bucket across districts, followed by Rs. 5-10 lakh and Rs. 3-5 lakh segment representation.

Table 10 Inventory

Sales	Indore	Tikamgarh	Khargone	Jabalpur	Rewa	Total
Up to 3 lakh	6%	5%	1%	3%	2%	3%
3 lakh-5 lakh	21%	19%	27%	19%	15%	21%
5 lakh-10 lakh	26%	31%	17%	14%	35%	25%
10 lakh-20lakh	8%	11%	6%	24%	25%	14%
20 Lakh-50 lakh	35%	31%	45%	39%	20%	34%
Above 50 lakh	3%	2%	4%	1%	2%	3%

Types of Accounts

Types of accounts segment are consistent in representation across the district with overall average representation wherein 90% of small businesses operate on savings accounts across districts with minor variances.

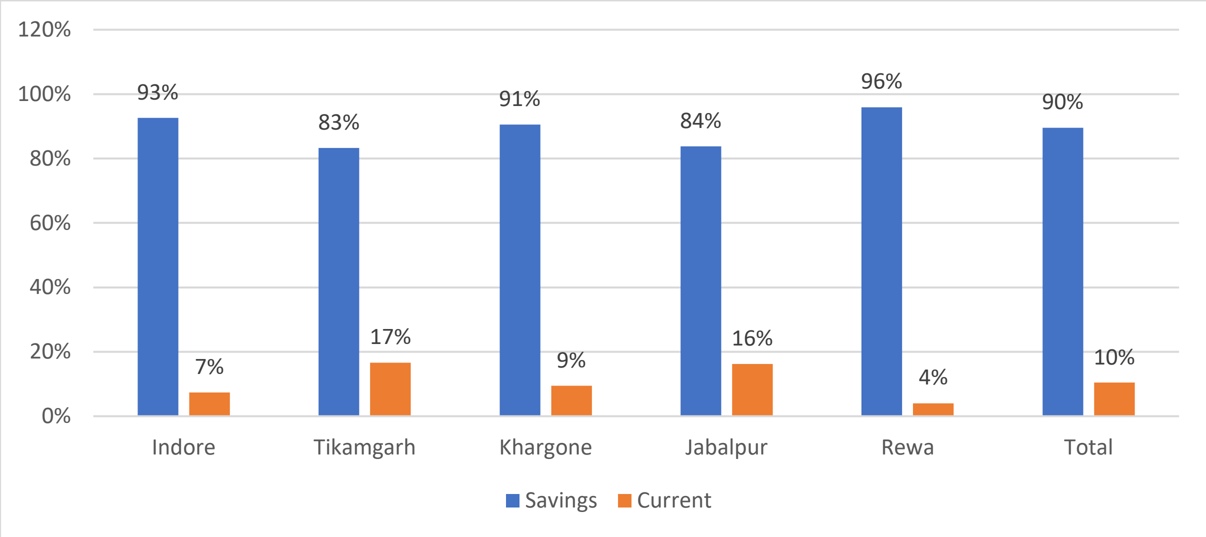


Figure 40 Type of Accounts

Requirement of Loan

The requirement of loans is consistent across the district with the overall representation of the loan requirement, wherein around 80% of small businesses need credit/finance to grow. Rewa is an exception wherein only 61% of small businesses stated the requirement of a loan.

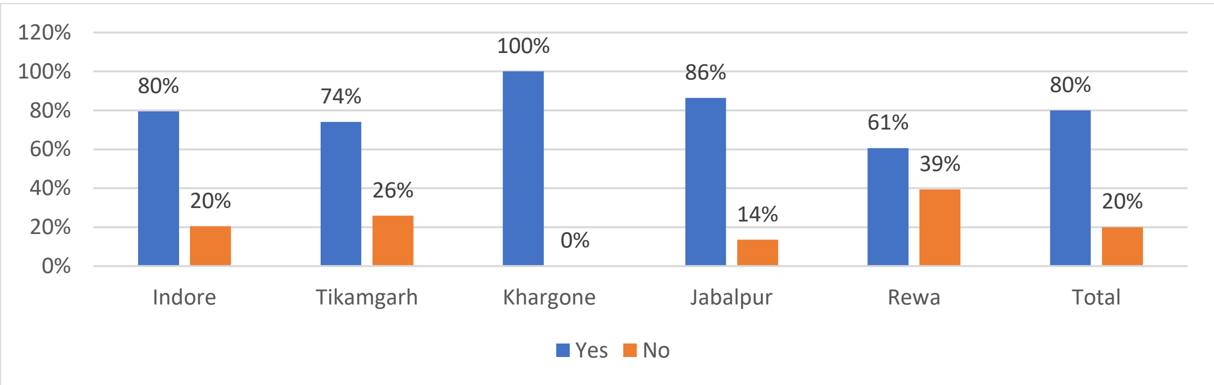


Figure 41 Loan Requirement

Extent of Loan Requirement

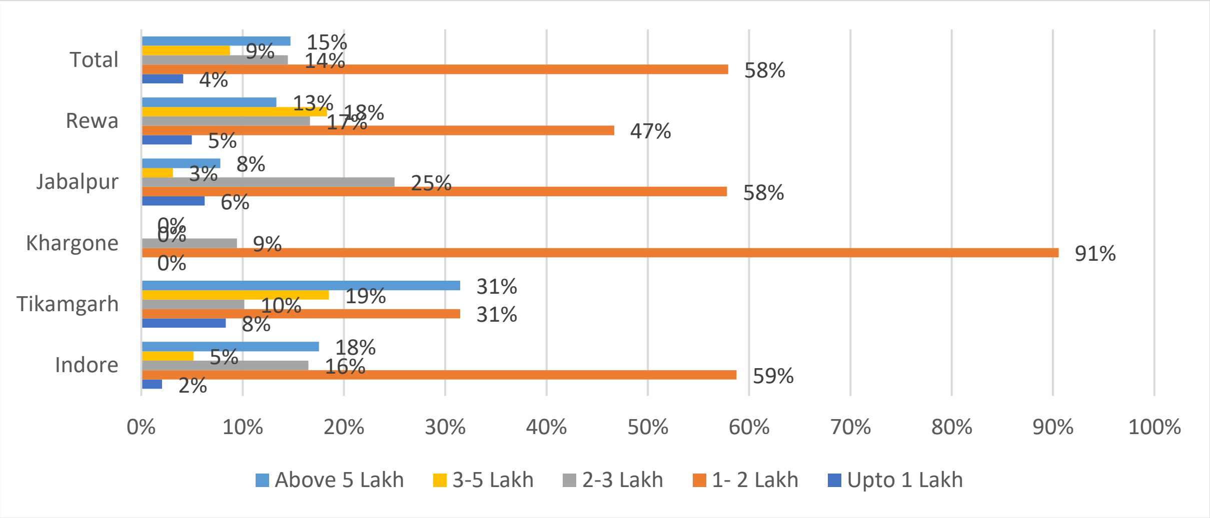


Figure 42 Slab of Loan Requirement

The slab of the loan requirement is more or less consistent within the district in terms of the pattern of the overall requirement of loans with maximum businesses required Rs. 1-2 lakh of working capital. Khargone district shows a unique pattern with the highest demand of Rs. 1-2 lakh (91%) and no demand for loans above Rs. 3 Lakh. The requirement of a loan above Rs. 5 lakh is the maximum in Tikamgarh, followed by Jabalpur and Rewa.

Loan Status

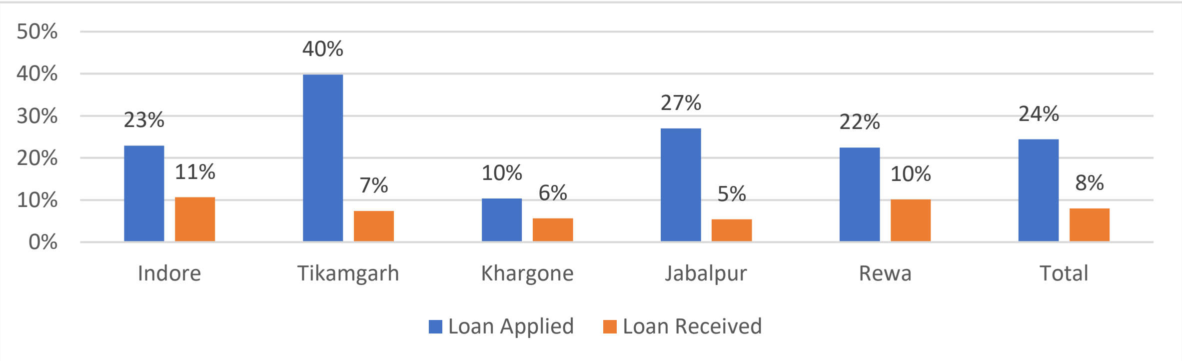


Figure 43 Loan Applied & Received

The access to finance situation across districts is consistent with the overall condition, wherein, on an average, only 24% of small businesses have applied for loans, and only 33% of them were able to receive finances from financial institutions. The highest success rate of conversion is in Khargone, Indore and Rewa districts, with around 50% conversion rate of loan applied and a loan received. However, in Khargone district, only 10% of people have applied for loans, whereas in Indore, it's 23%, and Tikamgarh is 40%.

Sources of Loan (Formal)

The sources of the loan vary from district to district, wherein Rewa has a very high percentage of PSB as a source of loan followed by Private banks, wherein Jabalpur has a higher percentage of NBFC and Private bank loans, Tikamgarh has a higher percentage of MFI loans, and Indore has a very high percentage of NBFC business loans.

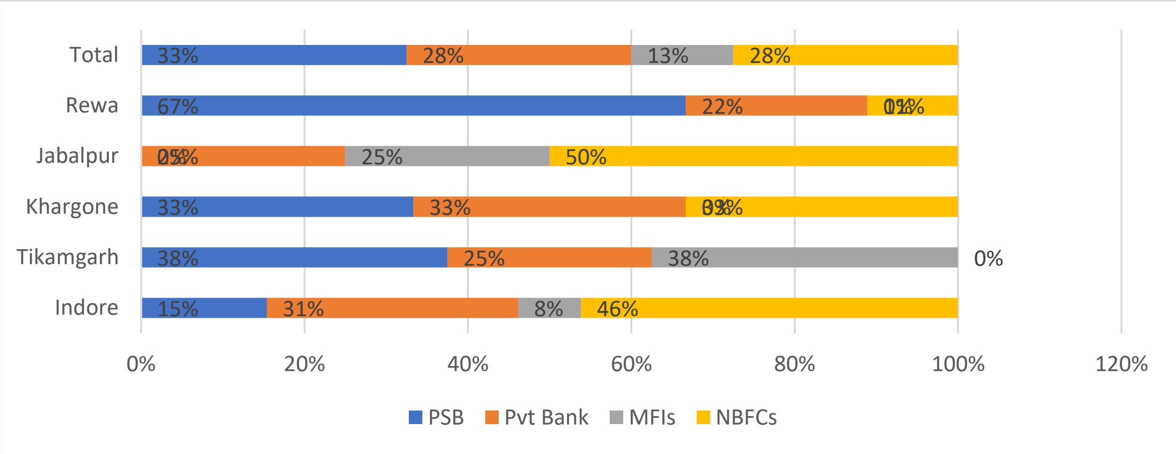


Figure 44 Sources of Loan

Sources of Loan (Informal)

The informal sources of loan matrix within districts are more or less consistent with the overall average matrix. In contrast, the maximum contribution of an informal source is moneylenders, followed by friends and family. The trend remains similar in all districts.

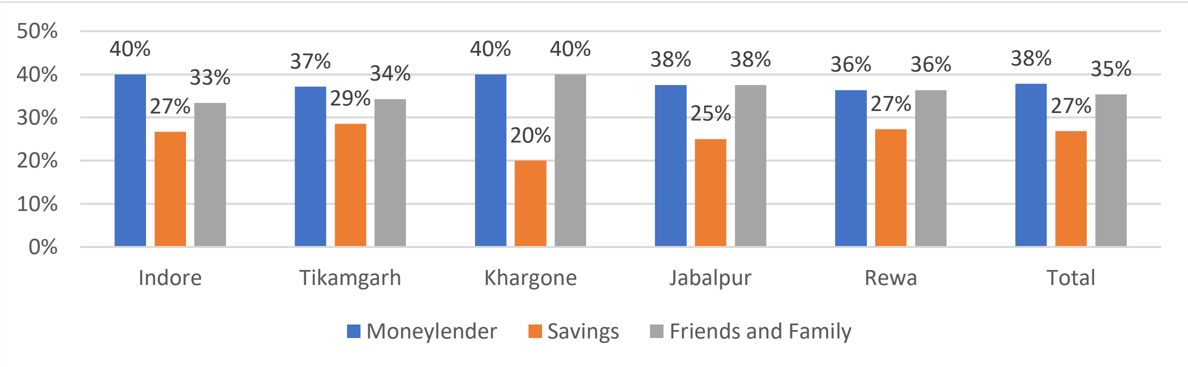
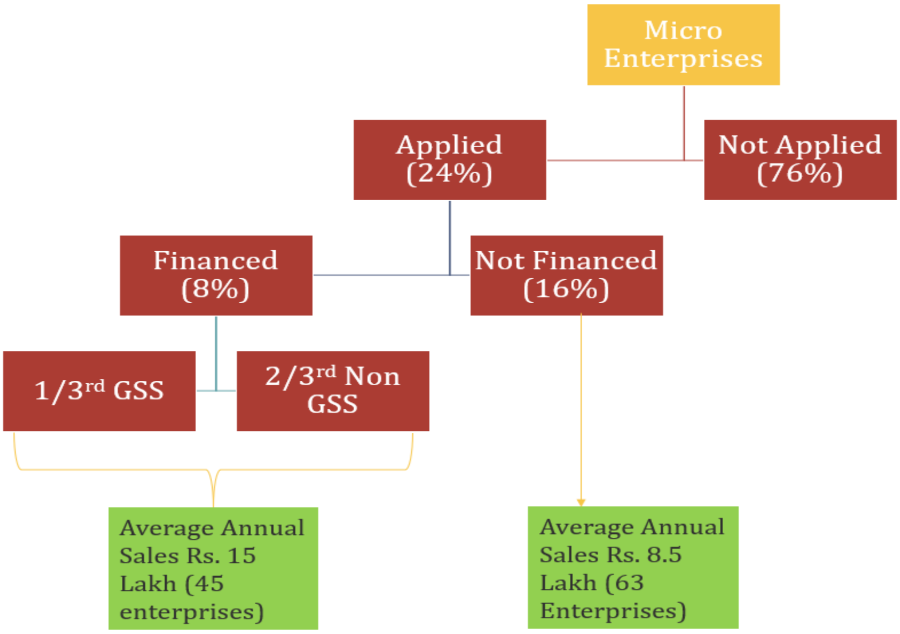


Figure 45 Informal Sources

Status of Access to Finance

The below given figure is presenting the status of access to finance in Madhya Pradesh. Only 24% microentrepreneurs applied for loan in the banks rest 76% stated no demand of funds due to many reasons like operational challenges, long processing time etc. Out of 24% only 8% received funds and 16% application not financed. If we check the GSS share in the financed applications only one third or 3% application came through GSS and rest 5% application of non-GSS. It shows that there is a need to relook on the GSS provided by the state governments as most of the entrepreneurs are not showing interest towards them.



Access to Finance Challenges

Access to Finance challenges varies from district to district, wherein Indore and Khargone districts specifically mention delay & long processing time of loans and lack of knowledge on business loans and Jabalpur and Tikamgarh districts highlights complex process & documentation and lack of nearby branches.

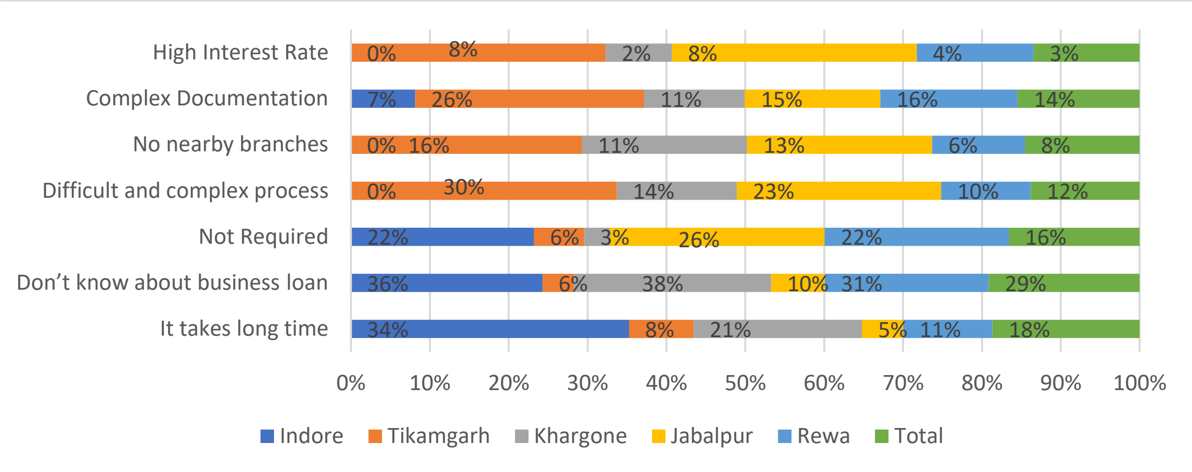


Figure 46 Challenges

Factors Affecting Access to Finance

The study incorporated 21 major statements related to factors affecting access to finance based on the literature. EFA is used to identify the most influencing factors and form variables to explore their impact on access to finance. Table 11 presents the overall result of performing EFA test and indicates a sufficient correlation between the variables, i.e., significance value less than 0.05 and sample adequacy is above 0.6.

Table 11 Factor Analysis - KMO

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.859
Bartlett's Test of Sphericity	Approx. Chi-Square	4008.171
	df	171
	Sig.	.000

Further, table 12 shows the amount of variance each variable explains in the entire data set. Usually, as per literature, we take only those statements/variables that describe more than 50% of the variance. Table 12 indicates that high-interest cost and low interest or subsidised loan are the two factors that have commonalities values below 0.5. Additionally, anti-image correlation matrix results also indicated that their correlation value was low, below 0.6. After their exclusion, the results of the remaining variables are present in table 13, which shows commonalities of all the variables above 0.6.

Table 12 Factor Analysis - Communalities

Communalities

	Initial	Extraction
Association_big_firm	1.000	.592
ACCESS TO FINANCE_for_growth	1.000	.611
Collateral_security_hurdle	1.000	.707
Loan_app_processing_takes_time	1.000	.716
Documentation	1.000	.606
Lack_of_credit_history	1.000	.648
Non-maintenance_books_records	1.000	.564
High_cost_finance	1.000	.226
Life_cycle_stage	1.000	.560
Location	1.000	.595
Enterprise_infra	1.000	.558
Registration_Shops	1.000	.595
Filling_ITR	1.000	.668
GST_Registration	1.000	.605
Separate_bank_account	1.000	.689
First_loan_difficult	1.000	.517
Less_penetration_branches	1.000	.537
Awarenes_Potential__schemes	1.000	.610
Awareness_schemes	1.000	.549
Sschemes_resolve_finance	1.000	.614
Low_interest_or_subsidized_loan	1.000	.278

Extraction Method: Principal Component Analysis.

Therefore, out of 21 statements, 19 statements are used to identify factors related to access to finance for microenterprises.

Table 13 Factor Analysis - Communalities

Communalities

	Initial	Extraction
Association_big_firm	1.000	.584
ACCESS TO FINANCE_for_growth	1.000	.629
Collateral_security_hurdle	1.000	.715
Loan_app_processing_takes_time	1.000	.734
Documentation	1.000	.617
Lack_of_credit_history	1.000	.641
Non-maintenance_books_records	1.000	.567

Life_cycle_stage	1.000	.559
Location	1.000	.606
Enterprise_infra	1.000	.558
Registration_Shops	1.000	.618
Filling_ITR	1.000	.670
GST_Registration	1.000	.607
Separate_bank_account	1.000	.690
First_loan_difficult	1.000	.511
Less_penetration_branches	1.000	.538
Awarenes_Potential__schemes	1.000	.630
Awareness_schemes	1.000	.581
Sschemes_resolve_finance	1.000	.675

Extraction Method: Principal Component Analysis.

Table 14 shows that 19 variables are reduced to four factors (financial status of entrepreneur, enterprise characteristics, the creditworthiness of firm, awareness about Government schemes), and these explain 61.74% of the variance for access to finance. Therefore, the study identified four major factors from the 19 variables, which explain more than 50% of the variance. The first factor (component 1) explains 28.34% of the variance, the highest, followed by factor 2.

Table 14 Factor Analysis - Total Variance

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.386	28.346	28.346	5.386	28.346	28.346	3.791	19.953	19.953
2	2.742	14.429	42.775	2.742	14.429	42.775	3.477	18.298	38.252
3	2.451	12.898	55.673	2.451	12.898	55.673	3.072	16.168	54.420
4	1.154	6.073	61.746	1.154	6.073	61.746	1.392	7.326	61.746
5	.814	4.283	66.029						
6	.796	4.190	70.219						
7	.662	3.485	73.704						

8	.637	3.355	77.059						
9	.579	3.047	80.106						
10	.517	2.721	82.827						
11	.475	2.501	85.328						
12	.428	2.254	87.582						
13	.410	2.158	89.740						
14	.381	2.007	91.747						
15	.375	1.975	93.722						
16	.324	1.706	95.428						
17	.311	1.638	97.066						
18	.295	1.551	98.617						
19	.263	1.383	100.000						

Extraction Method: Principal Component Analysis.

Table 15 explains which variables/statements come under these four identified factors. Factor one includes eight variables out of 19, which are related to each other.

Table 15 Factor Analysis - Rotated Component Matrix

Rotated Component Matrix[a]

	Component			
	1	2	3	4
Separate_bank_account	.815			
Filling_ITR	.783			
Enterprise_infra	.721			
Less_penetration_branches	.718			
Life_cycle_stage	.692			
Location		.750		
Registration_Shops		.744		
GST_Registration		.708		
First_loan_difficult		.636		
Loan_app_processing_takes_time	.474	.608		
ACCESS TO FINANCE_for_growth	.430	.578		
Lack_of_credit_history	.486	.578		

Collateral_security_hurdle			.817	
Documentation			.757	
Non-maintenance_books_records			.704	
Association_big_firm			.692	
Sschemes_resolve_finance				.729
Awarenes_Potential__schemes				.653
Awareness_schemes				-.569

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 6 iterations.

Further, the study has also checked for the reliability of these four identified factors, which is more than the acceptable limit (Cronbach's Alpha 0.4) for all the factors (table 16). Therefore, based on the above analysis of factors and reliability, the study has identified these four factors, which explain 61.34% of the variance; out of these factors, 1 explains maximum variance. However, to identify the level of determination of the respondents on the identified factors., we calculated summated scores of the factors based on factor analysis present in table 17.

Table 16 Reliability Score

Factor	Cronbach's Alpha	N of Items
Financial status of entrepreneur	.838	8
Enterprise characteristics	.814	7
Creditworthiness of firm	.815	4
Awareness about government schemes	.395	3

As the descriptive statistics of the summated scores, factor 4 is most crucial, which has the highest mean value (3.33) and lowest standard variance (0.36). However, maximum variance is explained by factor 1.

Table 17 Summated Scale

Descriptive Statistics of Summated Scale

	N	Minimum	Maximum	Mean	Std. Deviation
Financial status of entrepreneur	506	2.00	4.00	3.2631	.38632
Enterprise characteristics	506	2.14	4.00	3.2868	.38689
Creditworthiness of firm	506	2.00	4.00	3.2777	.47925
Awareness about government schemes	506	2.00	4.00	3.3314	.36725

Impact on Access to Finance

The study has applied logistic regression to see the impact of four factors identified using EFA. Logistic regression is used for studying the relationship between a categorical dependent variable and one or more explanatory variables (Peng, & So, 2000). Unlike other regression analyses, Logistic regression does not rely on the assumptions of normal distribution, linearity, and equality of variance and covariance (Cleary, & Angel, 1984; Efron, 1975). However, before the logistic regression, tolerance and VIF values, scatter plots; and bivariate correlations were examined to check the multicollinearity among explanatory variables. These statistics show the absence of multicollinearity problem among the explanatory variables (Menard, 1995; Myers, 1990). As the dependent variable is a binary variable with non-normal error, the study used a logistic regression model with the following specification

$$Predicted\ Logit\ (Y = 1) = \beta_0 + \beta_1 Financial\_Status_1 + \beta_2 Enterprise\_Charterstics_2 + \beta_3 Creditworthiness_3 + \beta_4 Awareness\_GSS_4 + \epsilon_i \quad \text{(Equation I)}$$

In Eq. (1), Y represents the respondents' got finance from the banks or financial institutions for their enterprise. β_0 is the constant, likewise $\beta_1, \beta_2, \beta_3, \beta_4$ are the coefficients of the predictor variables which are identified as a result of EFA. while ϵ_i is the error term.

Table 18 Logistics Regression - Classification Table

Classification Table[a,b]

	Observed	Predicted

			Got_Finance		Percentage Correct
			Yes	No	
Step 0	Got_Finance	Yes	0	45	.0
		No	0	461	100.0
	Overall Percentage				91.1

a. Constant is included in the model.

b. The cut value is .500

The classification table helps predict whether the respondents got finance for their enterprise after applying for it or did not get it. It will predict that it could make this decision arbitrarily. Still, because it is crucial to maximizing how well the model predicts the observed data, SPSS will indicate that every respondent belongs to the category most observed cases fell. In this case, 45 respondents have got the finance for their enterprises, and 481 did not get it after applying. Therefore, the model predicts that every respondent who applied for the loan for the enterprise will not get finance 461 times out of 506, i.e., 91%, the prediction will be correct. However, it predicts that every respondent who applied for the loan for enterprise got the loan then this prediction will be correct only 9%, i.e., 45 times out of 506.

Table 19 Logistics Regression - Variables not in Equation

Variables not in the Equation

			Score	df	Sig.
Step 0	Variables	FAC2_2	1.888	1	.169
		FAC3_2	4.106	1	.043
		FAC4_2	1.822	1	.177
		FAC1_2	.240	1	.624
	Overall Statistics		8.056	4	.090

Table 19 **Variables not in the Equation** tells us that the residual chi-square statistic is 8.056, significant at 10% significance level. This statistic tells us that the coefficients for the variables in the model are significantly different from zero – in other words, the addition of one or more of these variables to the model will substantially affect its predictive power. The value of the score, also known as Roa's efficient score statistic, indicates the significance of the specific

distribution of the categories. In table 19, creditworthiness has significant score statistics and could contribute to the model.

Table 20 Logistics Regression - Omnibus Test

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	7.863	4	.097
	Block	7.863	4	.097
	Model	7.863	4	.097

The "*Omnibus Tests of Model Coefficients" confirms that whether* the model (with explanatory variables) is an improvement over the baseline model or not (Cokluk 2010). Table 20 suggests that the new model significantly improves the accuracy of the baseline model when we add explanatory variables (*chi-square=7.863, df =4, p<.100*).

Table 21 Logistics Regression - Model

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	295.800[a]	.015	.034

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

The *Model Summary* provides pseudo-R^2 values for the full model. Nagelkerke R^2 values represent the explained variance in the dependent variable by the model and are interpreted in a similar way to R square in linear regression (Field, 2005). The Nagelkerke R^2 suggests that the model explains roughly 3% of the variation in the outcome (table 21).

Table 22 Logistics Regression - Variables in Equation

Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)

Step 1[a]	Enterprise_Charateristics	.197	.160	1.519	1	.218	1.218
	Creditworthiness	.335	.173	3.766	1	.052	1.398
	Awareness_GSS	.199	.157	1.619	1	.203	1.221
	Financial_Status	.024	.149	.026	1	.871	1.025
	Constant	2.405	.167	206.914	1	.000	11.077

Table 22 presents the result of the final regression model, which indicates that out of the four major factors identified, only factor (Creditworthiness) has a significant impact (p-value < 0.5) on the access to finance for micro-enterprises. It means the creditworthiness of the micro-enterprise matters a lot for the lenders in terms of providing funds. It indicates that the micro-enterprises with creditworthiness are 1.398 times more likely to get the loans/funds from the banks and financial institutions after applying. The value of the coefficient of creditworthiness (.335) is also positive, which indicates a positive impact on access to finance of creditworthiness of the firms. The results of this study are in line with Wasiuzzaman et al. (2020) study where creditworthiness is an important factor for access to finance.

Cluster Analysis

The study has applied cluster analysis to identify a similar group of respondents who share similar ideas for access to finance for micro-enterprises. Based on the data, the study first applied hierarchical cluster analysis and identified four major clusters and then grouped them using K-means cluster analysis. The results indicate four major clusters, where the first cluster has maximum respondents (table 23).

Table 23 Number of Cases in Clusters

Number of Cases in each Cluster

Cluster	1	166.000
	2	151.000
	3	127.000
	4	62.000
Valid		506.000
Missing		.000

Psychographic Analysis of Clusters

Table 24 presents the final cluster of the respondents based on average score and tells which cluster think what about the statements asked to them. Cluster 1 respondents think that association of micro-enterprises with bigger firms, documentation issues in getting a loan, maintenance of books of records, life cycle stage of the enterprise, enterprise infrastructure, filing of income tax return, a separate bank account of enterprise and less penetration of branches are the most crucial factors affecting access to finance for microenterprise in their areas. However, Cluster 2 responders believe that application processing by banks and financial institutions, location of the enterprises, i.e., rural or urban, registration of enterprise under Shop & Establishment Act, not having a GST number, first-time loan from banks, awareness amongst the potential entrepreneurs about government schemes, the role of government schemes in minimizing the problem of access to finance for microenterprises are the most crucial aspects. Cluster 3 respondents think that awareness about government schemes among potential entrepreneurs is the essential aspect of access to finance. Cluster 4 respondents do not emphasize the most crucial aspects of access to finance. However, they disagree about some factors affecting access to finance for micro-enterprises. They emphasized that GST registration, a separate bank account of enterprise, and filling the income tax return are not factors affecting access to finance for microenterprises.

Table 24 Final Clusters

Final Cluster Centres

	Cluster			
	1	2	3	4
Do you think the association of micro-enterprises with bigger firms solve access to finance problems?	4	3	3	3

Do you think that access to finance is most crucial for the growth of a micro-enterprise?	3	3	3	3
Do you think that lack of collateral security acts as a major hurdle in access to finance?	3	3	3	3
Do you think loan application processing by banks and other financial institutions takes a long time and creates a problem for micro-enterprises?	3	4	3	3
Do you think the documentation required for getting finance is one of the reasons for poor access to finance for micro-enterprises?	4	3	3	3
Do you think the lack of credit history of micro-enterprises is the reason for poor access to finance?	3	3	3	3
Do you think the non-maintenance of books of records by the micro-enterprises is associated with poor access to finance?	4	3	3	3
Do you think the high cost of finance is the reason for not getting the finance from banks and FIs?	3	3	3	3
Do you think the life cycle stage of the micro-enterprise matters for getting the finance from the banks and FIs?	4	3	3	3
Do you think the location (urban or rural) of micro-enterprise matters for getting the finance from the banks and FIs?	3	4	3	3
Do you think enterprise infrastructure helps to get finance from banks and other Fis?	4	3	3	3
Do you think registration of micro-enterprise under the Shops & Establishment Act/Gumasta assist in getting finance?	3	4	3	3
Do you think filling of income tax return assists in getting finance for micro-enterprises?	4	3	3	2
Do you think registration of micro-enterprise under GST assist in getting finance?	3	4	3	2
Do you think having a separate bank account of micro-enterprise supports access to finance?	4	3	3	2
Do you think taking a first-time loan from banks and FIs is difficult?	3	4	3	3
Do you think that less penetration of branches of formal FIs is the reason for poor access to finance?	4	3	3	3
Do you think there is awareness amongst the potential entrepreneurs about the state and centre government schemes related to access to finance?	3	4	4	3
Do you think there is awareness amongst the entrepreneurs about the state and centre government schemes related to access to finance?	3	3	3	3
Do you think that government schemes, i.e., state and centre, can resolve the issue of access to finance?	3	4	3	3
Do you think that a lower interest rate or subsidized loan can improve access to finance scenarios for micro-enterprises?	3	3	3	3

Demographic Analysis of Clusters

To further understand the respondents' answers towards different statements, we have analysed the clusters' demographic data using clusters data against their demographic factors. Table 25 indicates that the gender of respondents does not make any difference in their statements. The majority of the clusters dominate male members. However, the region of the micro-enterprise makes a difference. In cluster 3, the majority of the respondents have enterprises in the urban areas. They cited the reason of awareness about government schemes as the most crucial factor of lack of access to finance.

On the other hand, cluster 2, where most respondents are in rural areas, replied that application process time is more in the banks due to fewer branches and minimum bank staff. In addition, they also revealed that their enterprises are in rural areas, which is one reason why banks and FIs do not provide credit to them due to low turnover. They do not have awareness about the shop registration and process, which is why they do not register for GST. However, they feel that government support can solve the problem of access to finance for them. Clusters 1 and 4 respondents are identical in terms of their classification in rural and urban areas. They both agree that GST registration is not the issue in getting a loan from banks and FIs.

Table 25 Demographic Analysis of Clusters

Cluster	Gender	Percent	Region	Percent	Marital Status	Percent
1	Male	98.2	Urban	38.6	Married	98.8
	Female	1.8	Rural	61.4	Unmarried	1.2
2	Male	97.4	Urban	17.2	Married	99.3
	Female	2.6	Rural	82.8	Unmarried	0.7
3	Male	99.2	Urban	95.3	Married	96.9
	Female	0.8	Rural	4.7	Unmarried	3.1
4	Male	100	Urban	30.6	Married	91.9
	Female	0	Rural	69.4	Unmarried	8.1

The marital status of the enterprise owner does not explain much about the cluster characteristics. However, in cluster 4, where more respondents are unmarried, disagreed on the several aspects related to access to finance with other clusters.

Table 26 presents the clusters classification in different ages and categories. Clusters 1 and 2 have the majority of respondents in the age category of 31-40 years. In the 4th cluster, most of the respondents are young, between 21 to 30 years, and that is the reason they do not find GST registration, income tax return and separate bank account for enterprise as issues of access to finance. On the other hand, cluster 3, where 30% of respondents are above 40 years thinks that awareness about government schemes among the entrepreneurs can resolve the problem of access to finance. However, they consider other factors as the primary reason for this problem.

In cluster 3, a greater number of respondents are in a general category, and they highlight the reason awareness about government schemes is the cause of access to finance problems. However, in clusters 1 and 2, more respondents are in the OBC category, and they highlighted other factors as an issue of access to finance for micro-enterprises. Clusters 1, 2 and 3 have some percent of minority respondents also. On the other hand, cluster 4 does not include any response from the minority population, and therefore their views are different from other clusters in terms of access to finance.

Table 26 Age Classification of Clusters

	Age	Percent	Category	Percent
Cluster 1	21-30	25.3	Gen	41.6
	31-40	59.6	OBC	51.2
	41-50	11.5	SC	1.8
	50 & above	3.6	ST	1.8
			Minority	3.6
Cluster 2	21-30	21.2	Gen	34.4
	31-40	66.9	OBC	55
	41-50	9.3	ST	0.7
	50 & above	2.6	Minority	9.9
Cluster 3	21-30	18.1	Gen	60.6
	31-40	52	OBC	29.9

	41-50	25.2	SC	0.8
	50 & above	4.7	ST	2.4
			Minority	6.3
Cluster 4	21-30	40.3	Gen	48.4
	31-40	43.6	OBC	45.2
	41-50	12.9	SC	4.8
	50 & above	3.2	ST	1.6

Table 27 shows the classification of the cluster respondents by their education. Cluster 4 has the highest percent of technically qualified as well as postgraduate respondents. It may be why they do not find GST registration and income tax return an issue, as they are well versed with the digital world and market. Therefore, according to them, other issues matter more. On the other hand, no respondents or very few have technical qualifications or postgraduate degrees (except cluster 3). In addition, the majority of their respondents possess secondary qualifications. Therefore, their access to finance issues are different like awareness about government schemes, GST registration, income tax return, enterprise-owned infrastructure, books of records, etc. are the variables that affect access to finance.

Table 27 Education Qualification of Clusters

Cluster	Education Qualification	Percent
Cluster 1	Primary	8.4
	Secondary	72.3
	Graduate	19.3
Cluster 2	Primary	5.3
	Secondary	68.2
	Graduate	25.2
	P.G/ Others	1.3
Cluster 3	Primary	5.5
	Secondary	44.1
	Graduate	41.7

	P.G/ Others	7.9
	Technical	0.8
Cluster 4	Primary	6.5
	Secondary	56.5
	Graduate	29
	P.G/ Others	4.8
	Technical	3.2

Table 28 presents the years of operations of the enterprises under the study. It is evident from it that cluster 4 has more young enterprises compared to other clusters. It seems that the majority of the owners of these enterprises are young. Therefore, their issues related to access to finance do not involve GST registration, income tax return and separate bank account. They know more and how to manage all these aspects, which is not the issue in the case of clusters 1 and 2.

Table 28 Years of Operation of Clusters

Cluster	Years of Operations	Percent
1	0 to 5	49.4
	6 to 10	41
	11 to 15	4.8
	16 to 20	3
	21 to 25	1.2
	26 to 30	0.6
2	0 to 5	33.8
	6 to 10	55.6
	11 to 15	4
	16 to 20	5.3
	21 to 25	1.3
3	0 to 5	52
	6 to 10	26.7
	11 to 15	15.8

	16 to 20	3.9
	21 to 25	0.8
	26 to 30	0.8
4	0 to 5	74.2
	6 to 10	16.1
	11 to 15	8.1
	16 to 20	1.6

In these clusters, the majority of the enterprises are more than five years old. Therefore, their owners have more experience and different set of factors affecting access to finance such as documentation, application processing, GST registration, association with bigger enterprises etc. On the similar lines to cluster 4, cluster 3 respondents' majority of enterprises (52%) are less than five years old. Therefore, they have not faced major issues related to access to finance and highlight the reason for awareness about the government schemes as the biggest boon for solving access to finance for micro-enterprises.

Table 29 shows that cluster 4 has a maximum percent of respondents in the income category of up to Rs. 250000. On the other hand, cluster 3 has the lowest number of respondents. Therefore, their access to finance issues are quite different from clusters 1 and 2, which are highlighted above.

Table 29 Income Classification in Clusters

Cluster	Family Income	Percent
1	0 -250000	42.4
	250000 - 500000	43.1
	500000 - 750000	4.8
	750000 - 1000000	0
	1000000 & above	9.7
2	0 -250000	52.7
	250000 - 500000	40.6
	500000 - 750000	1.4

	750000 - 1000000	0
	1000000 & above	5.3
3	0 -250000	26
	250000 - 500000	45.7
	500000 - 750000	16.5
	750000 - 1000000	0.8
	1000000 & above	11
4	0 -250000	85.5
	250000 - 500000	8
	500000 - 750000	3.3
	750000 - 1000000	0
	1000000 & above	3.2

The infrastructure status of the enterprise shows that cluster 4 has more than 50% of entrepreneurs are operating their businesses in their infrastructure. On the other hand, it is the almost identical percent of enterprises owning the premises to run the business in different clusters.

Table 30 Infrastructure Status in Clusters

Cluster	Owned	Rented
1	25.3	74.7
2	27.2	72.8
3	29.1	70.9
4	53.2	46.8

Discussion on Cluster Analysis

Table 31 Major Findings of Clusters

	Demographic Characteristics	Factors Affecting
Cluster 1	Mainly rented premises, more rural enterprises, very few unmarried, Majority in the age group of 31-40, Majority in OBC category, No one is postgraduate and highest percent has a secondary qualification, Majority of the enterprises are 0 to 10 years old	Association of micro-enterprises with bigger firms, documentation, maintenance of books of records, life cycle stage, enterprise infrastructure, filing of ITR, a separate bank account of

	among all clusters, Majority are in the family income category of Rs. 0 to 1000000, and few have more than Rs. 1000000.	enterprise and less penetration of branches are most crucial factors
Cluster 2	Mainly rented premises, majority rural enterprises, almost all married, Highest percent (66%) in the age group of 31-40 years among all clusters, Highest percent respondents are in OBC and minority category among all clusters, Majority have graduate, and least percent have primary education among all clusters, Maximum percent of the enterprises are 6 to 10 years old among all clusters, Majority are in the family income category of Rs. 0 to 1000000.	Application processing, location of enterprise, registration of enterprise under Shop & Establishment Act, GST number, first-time loan from banks, awareness about government schemes, the role of government schemes in minimizing the problem of access to finance are the most crucial aspects
Cluster 3	Mainly rented premises, majority urban enterprises, very few unmarried, Highest percent (25%) in the age group of 41-50 years among all clusters, Highest percent respondents are in the general category among all clusters, Highest percent are graduate and postgraduate among all clusters, Majority of the enterprises are 0 to 10 years old among all clusters, and few are more than ten years old, Highest percent of respondents have family income more than Rs. 1000000 among all clusters.	Awareness about government schemes affects the most access to finance
Cluster 4	The majority of entrepreneurs have a family income under Rs. 250000, Mainly Owned premises, more rural enterprises, few unmarried, Identical percent of respondents in 21-30- and 31-40-years age groups, Highest percent respondents are in SC category among all clusters, Maximum percent respondents have technical qualification, and many have secondary, Maximum enterprises are up to five years old among all clusters, the highest percent of respondents have a family income under Rs. 250000 among all clusters.	Not affecting access to finance – GST registration, income tax return and separate bank account

Discussion – Supply Side Analysis

Supply side analysis is presenting the status of bankers and financial institutions in terms of challenges faced by them in financing the loan applications and catering the financial needs of aspiring entrepreneurs. This analysis is fully qualitative and based on interview transcripts of bankers.

The study applied thematic analysis, i.e., a qualitative approach for analysing the responses of the participants. Various researchers have applied it in different fields such as healthcare, psychology, and social science (Fugard & Potts, 2015). It identifies, analyses and reports patterns (themes) in the data (Braun & Clarke, 2006). The themes in the data emerge after analysing the answers to the questions responded by the participants (Ryan & Bernard, 2003). Therefore, it explains all the implied understandings of the respondents related to the subject matter (Guest et al., 2012). Following this, we used ATLAS. ti Version 9 to extract themes from the collected responses of participants.

The study followed Braun & Clarke (2006), and Terry et al. (2017) recommended and conducted the thematic analysis using interview and webinar data. The steps included familiarising with data, generating initial codes, searching for the themes from the codes, reviewing the themes, defining and naming themes, and preparing the report. Following these steps, first, all the authors independently read the interview transcripts and listened to the video recording of the webinar using ATLAS. ti Version 9. The codes were then extracted from all the documents and videos by highlighting and annotating important issues, expressions and concerns of the interviewees and webinar participants. Third, we searched for the themes in coherence with the codes. In the next steps, identical codes were put together into general themes emerging from the codes. All the themes were reviewed, identified and finalised by the authors after the discussion on all the themes.

Thematic Analysis

This section presents the findings from the interviews of various respondents. The study annotated a total of 65 codes from interview scripts and subsequently clubbed them into six major themes after discussion. Table 32 presents the details of the codes and the themes. The objective of creating these themes is to explore the supply side issues of access to finance. It also focuses on identifying the measures that need to be taken to resolve the supply-side aspects of access to finance for micro-enterprises.

Table 32 Thematic Analysis

S.N.	Themes	Codes
1	Business Viability of loan applicants	Bank look for assets' creation, recovery of loan, Banks do not want NPAs, the higher interest rate is not an issue for borrowers, higher NPAs in GSS, low rate of asset creation by the enterprises, margin money is a better option then subsidy, No issues in financing existing enterprises, Online applications for loans are better, Small loan account managing an issue for banks, Small ticket size loans should be digitised, Subsidy gets delay in GSS, Subsidy is the reason of less genuine borrowers
2	Operational Issues of Financial Institutions	Claim process under GSS for banks, if documents are complete then it takes less time to finance, Monitoring of enterprises, No issues in the appraisal of loan application in banks, Physical verification of units by DIC for subsidized loans, Pressure on banks to expedite application appraisal Private banks have dedicated resources for different portfolios than public banks, scoring of loan application under various schemes, Staff reskilling for MSME lending, Understaffing in banks
3	Creditworthiness of Borrowers	CIBIL creates issues in financing, Collateral required, Creditworthiness of entrepreneur matters, Current account is necessary, Diversion of funds by entrepreneur, Easy to finance existing enterprise, EMI default
4	Financial Literacy and business acumen	Applicants hesitate to apply for a loan in PSUs, Assistance to the borrower for running a business, Awareness among owners and less promotion by the implementation authorities, Banks unable to run literacy campaign, Lack of confidence amongst applicants, Less financial literacy,

		Loan waiver mindset, Redundant business ideas, Training to borrowers for business
5	Issues with GSS operations	Awareness among owners and less promotion by the implementation authorities, Claim process under GSS for banks, Higher NPAs in GSS, Loan waiver mindset Mainly Bank finance through GSS, Margin money is a better option than subsidy; Only fresh loans should get a subsidy, Physical verification of units by DIC for subsidized loans, Pressure on banks to expedite application appraisal, Redundant business ideas, Scoring of loan application under various schemes, Subsidy gets delay in GSS, Subsidy is the reason of less genuine borrowers
6	Entrepreneurial Aspects of Rejection	Large application from service followed by trade, less genuine borrowers, Loan waiver mindset, Mismatch in application and applicants' statement, Mostly SME loan comes in trading, no idea to an entrepreneur about the business, Non-furnishing of Necessary Documents, Reason of rejection are not mentioned by banks, Redundant business ideas, Subsidy is the reason of less genuine borrowers

Theme 1 Business Viability for Financial Institutions

The majority of the respondents from the banks have cited the reason for the non-viability of funding to micro-enterprises. It is not much profitable for them to provide small loans and manage those accounts compared to large enterprises. Further, the recovery of loans from micro-enterprises is an issue, which leads to NPA, and banks do not want them.

It was also found that most of the loan applications in the banks come under GSS, which leads to less genuine borrowers due to subsidies by the Government. These borrowers then turn into NPAs because of the loan waiver mindset. Banks do not want to fund micro-enterprises to increase NPAs further. Therefore, banks sense that upfront margin money is better to provide subsidised loans to micro-enterprise owners.

Further, most of the loan applications under GSS do not have any strong idea of assets creation and revenue generation. Therefore, there are fewer genuine borrowers. These borrowers apply for the loan to use it for another purpose. These aspects combined indicate that it is financial non-viable for banks to finance micro-enterprises.

Theme 2 Operational Issues of Financial Institutions

Most of the respondents from the banks have raised concerns related to their operational aspects, such as availability of a limited number of employees in the branch, pressure from the top management to appraise a number of loan applications and scoring of loan applications.

They mentioned that banks get many loan applications under GSS, and then top management pressure banks to appraise them sooner. Banks fail to do this because of limited staff special in public sector banks, RRBs. Further, after financing the micro-enterprises under GSS, banks do not get their subsidy claim soon, leading to more manpower in small ticket size loans.

Further, banks and RRBs have also claimed that they do not take much time to provide funds to the micro-enterprise owners if the documents of the owners/enterprise are complete and they want support from DICs to verify the loan application so that genuine borrowers get the approval.

Theme 3 Creditworthiness of Borrowers

The creditworthiness of the borrowers matters a lot for the financial institutions to fund the micro-enterprises. Banks look for the CIBIL score of the borrower first hand, and most of the applications get rejected due to any EMI default by the borrowers in the past. However, it is easy to fund the existing enterprise as they have a credit history. In addition, RRBs look for collateral securities for the loan application above a certain amount, usually above Rs. 50000. On the other hand, banks do not want any collateral security up to Rs. 10 lacs.

The creditworthiness of the borrowers is important from the bankers' point of view because of the repayment of the loan and the diversion of the funds by the borrowers for other purposes.

Theme 4 Financial Literacy and Capacity Building

Most of the applicants are financially illiterate and lack awareness about government schemes. They hesitate to approach public sector banks for getting a loan and lack the confidence to talk to anyone on the financial matters related to their enterprise. However, those who apply for the loans come up with common business activities with the mindset to get loan waivers and subsidies to use these funds for purposes other than the business.

Banks and other financial institutions run minimal financial literacy campaigns due to lack of time and workforce. Respondents have argued that borrowers need to understand financial matters and run a business based on these issues.

Theme 5 Issues with GSS

Almost all the respondents have referred to the issues related to GSS. Many borrowers apply for loans under GSS to get the subsidy benefits with redundant business ideas. They come up with the loan waiver mindset. However, banks finance a few micro-enterprise owners under pressure from the top management, which leads to higher NPAs in under GSS. Therefore, banks hesitate to fund such owners. In addition, the claim process for the subsidy under GSS is not favourable to banks.

Financial institutions have raised the concern of poor financial awareness among the entrepreneurs and proper promotion by the implementation authorities about the GSS.

Theme 6 Entrepreneurial Aspects of Rejection

Various respondents have mentioned a few reasons for the rejection of the loan applications of the micro-enterprise owners. The primary reason includes less genuine borrowers, and they come up with redundant business ideas such as grocery store, readymade garments trading, tent house, shuttering etc. Further, the business ideas are related to services and trading sectors. A very few come up with manufacturing business ideas.

Further, the loan application of the borrowers does not match with their business ideas. Usually, the borrowers develop a mindset to get funds using the subsidy schemes and use them for other purposes. However, sometimes borrowers were unable to furnish the required documents, which led to the rejection of the loan applications.

Network Analysis

The study team prepared the network of the codes after discussion among the team members based on the observation of the field and thematic analysis output. The network analysis shows the relationship between the most important codes and how these codes affect each other. It helps to figure out what is the problem/solution from the responses of the respondents.

The network of codes represents that three aspects matter for resolving the access to finance problem for micro-enterprises. These three aspects are related to enterprises and owners (entrepreneurial aspects), financial institutions (business viability and operational aspects) and government-sponsored schemes.

Banks and other financial institutions are ready to finance genuine borrowers if they come up with good business ideas. Even if they come up with a run-of-the-mill idea, it should also have a proper revenue and asset generation plan. Banks hesitate to finance fresh loan applicants due to poor credit history and no idea of business. Further, banks officials also sense from the interaction with the borrowers that they have the intention to take advantage of subsidised loan and use it for some other purpose.

Banks and financial institutions have to approve projects following the targets and pressure from higher authorities. However, they constantly worry about the NPAs, the major cause of GSSs. The reason for all of these issues is the mindset of the borrowers, financial illiteracy and awareness about the purpose of the schemes. Therefore, to solve the problem of access to finance, the steps should be in this direction.

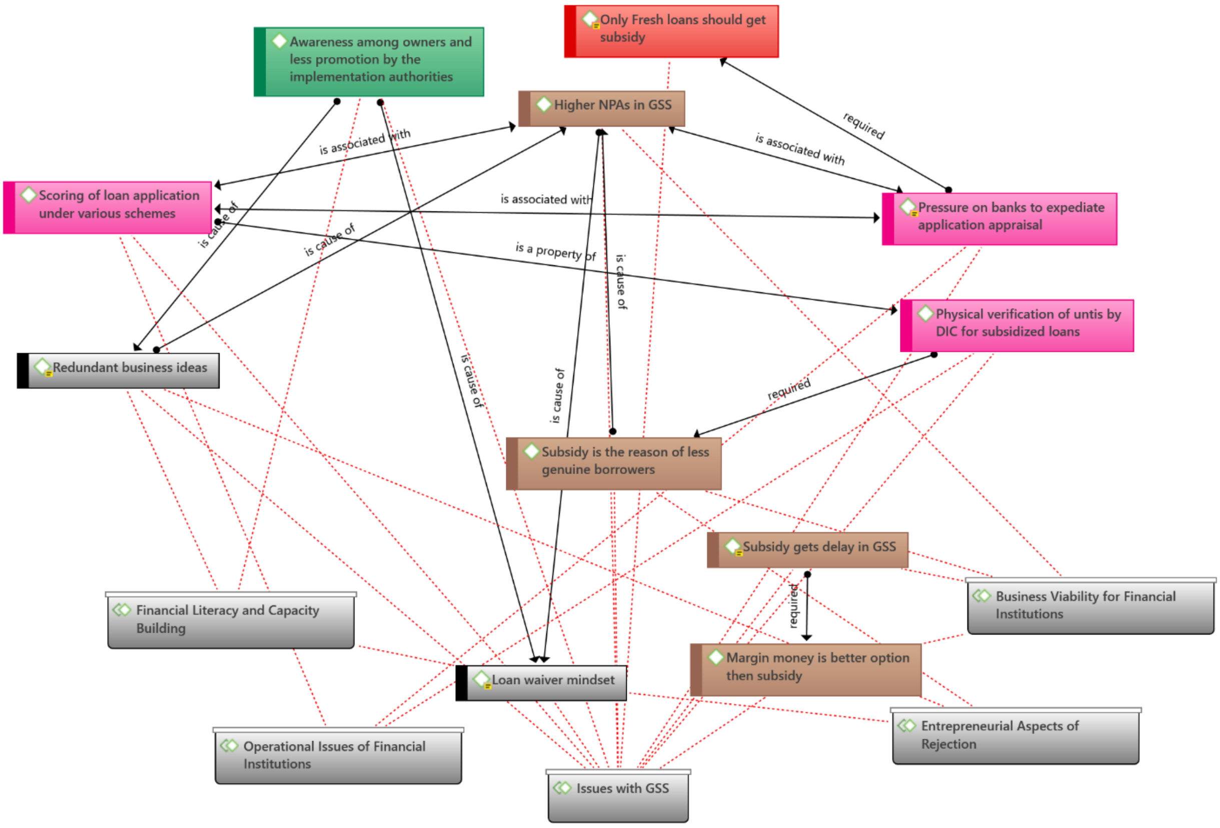


Figure 47 Network Analysis

Challenges of Financial Institutions in Serving Micro Enterprises

During the study the team interacted with officials of bank branches, LDM and GM DIC and MFIs to assess supply side scenario and challenges of financing to tiny enterprises segments. The team visited around 10 branches of public sector bank, RRB, SFBs and MFIs.

The average portfolio of MSME in the districts is around 10-15% of overall banking portfolio for public sector banks and RRBs. SFBs comparatively have larger portfolio of tiny enterprises, not necessarily MSME. MFIs are constrained by regulatory framework, wherein they can only lend up to 10% of their overall portfolio above Rs. 1.25 lakh.

Out of the total portfolio of small enterprises and MSMEs in public sector bank and RRBs, around 80% is attributed to Government Sponsored scheme (GSS), wherein the banks are facing issues of NPAs. The bankers also emphasised to timely release of subsidy claim, which in turns effects the NPA percentage.

Major Challenges cited by Financial Institutions

Sourcing Issue

It was evident that sourcing is one of the primary concern of bankers in tiny enterprises segment, wherein walk in business is the major source of business. Limited HR is another major issue in limited sourcing. In GSS schemes, the majority of sourcing workload is being managed by govt. departments (such as DIC, KVIC, NRLM etc), where in the larger concern of bankers is quality of proposals.

Genuine Borrowers/GSS Driven Model

Bankers have sighted concerns over genuine borrowers amid flooding of application under GSS schemes and also highlights that at times the actual beneficiary is not able to avail the intended benefit of the scheme and entities, which may not require the support ends up getting benefit of the schemes. Bankers stated that subsidy driven mindset is also a major constraint for this segment.

Non-Availability of CGTMSE Cover for RRBs

RRBs are struggling to create portfolio under MSME and tiny enterprises segment due to non-availability of CGTMSE cover for RRBs. RRBs stated that this is constraining their ability to create business portfolio especially small businesses, wherein they stated that there is huge potential. Few RRB branches have started lending up to 2 lakhs without CGTMSE cover and without support of GSS schemes.

Lack of Proper Documentation with Entrepreneurs

Bankers have stated lack of proper documentation with entrepreneurs for business loans. Basic documents of sales records, balance sheet and profit and loss accounts are not available along with tax returns.

Regulatory & Product Mix Concerns for MFIS & SFBS

The microfinance institutions stated that they are geared to transform at least 20% of their regular micro finance clients into enterprise clients in next 3-5 years. MFIs are struggling with regulatory concern and right product mix for loan segment of Rs. 1-5 lakh. MFIs have also stated that awareness among district administration on functioning of MFIs, their role could play an enabling role for MFIs to extend their outreach in this segment.

Lack of Enabling Ecosystem

Bankers and financial institutions stated that there is lack of enabling ecosystem at district level for small businesses lending at both demand and supply side. Some of the elements such as financial literacy, proper business planning, access to information and awareness on business loans at block and district level is missing from the ecosystem, which constraints both entrepreneur and the financial institutions.

Dedicated Verticals & Branches

One of the key constraints is lack of specialised verticals and branches to cater to specific requirement of this segment. Specialised skill sets for appraising loan application of this segment needs to be developed as the standard norms and appraisal process is not applicable to this segment.

Overall

Out of all the issues highlighted by the bankers, genuineness of borrowers, diversion of funds and subsidy issues with GSS are the major concerns. Most borrowers come with some random business idea for the shake of taking a loan under GSS because they understand that the loan is subsidised and they will get the loan waiver sooner or later. Further, they also use these funds for other purposes, which is their main aim to get funds under the subsidised scheme and use it for personal or household usage. This issue is most prevalent in all the districts. Bankers are unable to evaluate the loan application thoroughly due to lack of time and more applicants under GSS.

In addition, when bankers file for the subsidy claims under various centre or state government schemes, they usually get subsidy after one or two years, sometimes more than that.

Lead Bank SBI, Tikamgarh
During the interview, there were four staff members present and they all highlighted the issue of genuine borrowers under GSS. They said that most of the loan applications they get under GSS are of tent house and shuttering. When they go for evaluation and verification of the business. The borrower will usually show the tent house of other business which is currently being used. Therefore, they were unable to identify whether the equipments are of this borrower or other person. Same way in case of shuttering business also.

Figure 48 Network Analysis

Policy Gaps

Missing Middle

Nearly 65 million micro, small and medium enterprises (MSMEs) contribute 30% of India's gross domestic product and employ around 110 million people. By virtue of their regional spread and local employment generation, MSMEs not only have a huge potential in creating employment opportunities and positively impact inclusive economic growth but also check migration to urban centres. However, the lack of accessibility to credit has held them back from gaining size and adopting technology. The current MSME credit gap is estimated at around ₹25 trillion. This huge unmet credit demand has led to MSMEs being referred to as the "missing/lost middle" as their requirements fall between small-sized microfinance loans and larger-sized loans from banks.

The policy analysis also highlights that majority of schemes the targeted at enterprise creation under ACCESS TO FINANCE are geared for either bigger size loans (up to 1 crore) or very small sizes (less than 1 lakh). The various schemes are covering either the marginalised and weaker section like Street vendors or loans under Shishu loans or coverage of MFIs for up to Rs. 1 lakh loan and the higher segments of SMEs (more than 10 lakh). The segment of Rs. 1-5 lakh is missing from most scheme benefits and commercial lending aspects termed as Missing Middle, which needs specific attention.

Missing Partnerships with Alternate Financing Institutions such as NBFC MFIs

Lenders need to solve multiple problems to be able to service the missing middle gap efficiently and profitably. First, their existing processes are designed for a high level of human intervention at each stage namely sourcing, underwriting, monitoring and repayment collection. This makes the unit economics unfavourable for loans with smaller ticket sizes, particularly below ₹10 lacs, and for a short tenure which is the requirement of MSMEs. Second, most lenders have a distribution network skewed towards urban areas. But a large proportion of MSMEs are located in semi-urban and rural areas. This increases the cost of monitoring and servicing for the banks. The problem of information asymmetry, especially at the lower end of the spectrum of micro enterprises, exacerbates the difficulties. Most of these enterprises are proprietary and unable to provide the documents required by banks. A combination of these factors has led to a paradoxical situation, wherein while 99% of MSMEs are micro and small, their share in banking sector credit to industry is merely 13%.

The Micro lenders (MFIs/SFBs) are the best suited financing entity to cater to the missing middle segment between 1 lakh to 10 lakhs. These micro lenders have extensive outreach, demonstrated capability and have built mechanisms for financing this segment. The partnership and involvement of these micro lenders in the government programs and schemes is by far limited or non-existent. Specific target-based partnerships with these micro lenders with focus on financing small businesses and providing incentive to micro lenders to participate in targeted government scheme could change the scenario of access for these businesses.

Exclusion of Small businesses from State Credit Plan

The state credit plan usually sets the tone of overall financing focus in the state. The state credit plan is a comprehensive document prepared in partnership with major stakeholders and is being reviewed at state level bankers committee regularly. The focus or specific mention of loan to small/tiny business in the State Credit Plan on the lines of loans to small and marginal farmers could be done, which will bring the small loans under review and monitoring at State level banking.

Negligible role of Business Correspondents in Small Business Financing

The Reserve Bank of India has taken several initiatives over the years for increasing banking outreach and ensuring greater financial inclusion. A significant step in this direction was the issue of RBI guidelines in January 2006 for engagement of Business Correspondents (BCs) by banks for providing banking and financial services. Since then, the regulatory framework for the BC model has been progressively honed to ensure that consumer protection is not compromised while facilitating enhanced outreach of banking services. The relaxation in the regulatory framework was made possible due to the rapid changes in technology –both in terms of Core Banking Solution as also relatively low-cost biometric hand-held devices for ensuring authenticity and fraud prevention.

Business Correspondents are retail agents engaged by banks for providing banking services at locations other than a bank branch/ATM. Banks are required to take full responsibility for the acts of omission and commission of the BCs that they engage and have, therefore, to ensure thorough due diligence and additional safeguards for minimizing the agency risk. Basically, BCs enable a bank to expand its outreach and offer limited range of banking services at low cost, as setting up a brick and mortar branch may not be viable in all cases. BCs, thus, are an integral part of a business strategy for achieving greater financial inclusion.

BCs are permitted to perform a variety of activities which include identification of borrowers, collection and preliminary processing of loan applications including verification of primary information/data, creating awareness about savings and other products, education and advice on managing money and debt counselling, processing and submission of applications to banks, promoting, nurturing and monitoring of Self Help Groups/ Joint Liability Groups, post-sanction monitoring, follow-up of recovery. They can also attend to collection of small value deposit, disbursal of small value credit, recovery of principal / collection of interest, sale of micro insurance/ mutual fund products/ pension products/ other third-party products and receipt and delivery of small value remittances/ other payment instruments.

Unfortunately, the role of Business Correspondents in facilitating and extending small business loans is negligible in the state. None the banks apart from SBI involves BCs in sourcing and monitoring of small business cases. BCs have significant outreach, which the branch does not have but are largely functioning on liability side business of banks. An asset side revenue business model with BCs on small/tiny enterprises loan sourcing, initial screening/vetting and monitoring of repayment could be developed.

Single time assistance vis a vis solving working capital needs

Most of the GSSs provide finance to micro-enterprise owners who start new businesses, and refinance (working capital) options are minimal. Most of these microenterprise owners need funds to operate their businesses for the next two to three years. In addition, if some business owners want to expand their business, they have to rely on bank finance again, which creates issues. Therefore, the schemes should address these aspects.

Conclusion

The objective of the current study is to find the issues of access to finance for micro enterprises in MP for demand and supply side angles. The study collected the data from 513 micro enterprise owners, bankers, MFIs and government department officials to understand the challenges and issues. The results observe four major factors such as creditworthiness of firms, entrepreneur, financial status of entrepreneur, enterprise characteristics and awareness about government schemes. Out of theses, creditworthiness of the firm is the significant determinant of access to finance for micro enterprise in MP.

Based on the analysis, the study identified limited access to finance is a significant hindrance to the growth of MSMEs. However, the problem does not affect all enterprises equally. While commercial banks generally finance larger firms, smaller individual loans have been catered by MFIs and self-help groups (SHGs). This huge unmet credit demand has led to MSMEs being referred to as the “missing/lost middle" as their requirements fall between small-sized microfinance loans and larger-sized loans from banks. The requirement of ‘Missing Middle’ enterprises financial needs are not met by the current market. This missing middle mainly consists of small/tiny enterprises not registered under MSME with loan demand up to INR 5-10 lakh, a segment beyond the financing of MFIs and SHGs and too little for commercial banks.

As per the annual report (2020-21) of the MSME department Government of India, MP is among the top 10 states in terms of MSMEs in India (10th place). It is estimated that there are around 26.74 lakh MSMEs in MP, which accounts for 4% of MSMEs in India. It is further estimated that 26.42 lakh (98%) of 26.74 lakh MSMEs in MP are in the category of Micro Enterprises and rest are of small and medium size.

Lenders need to solve multiple problems to be able to service the missing middle gap efficiently and profitably. First, their existing processes are designed for a high level of human intervention at each stage namely sourcing, underwriting, monitoring and repayment collection. This makes the unit economics unfavourable for loans with smaller ticket sizes, particularly below ₹10 lacs, and for a short tenure which is the requirement of MSMEs.

Second, most lenders face challenges of shortfall of human resources leading to sourcing issues and genuine entrepreneurs, credit worthiness of small businesses and have a distribution network skewed towards urban areas, which often leads to longer processing time & complex processes. Large proportion of MSMEs are located in semi-urban and rural areas. This increases the cost of monitoring and servicing for the banks. The problem of information asymmetry, especially at the lower end of the spectrum of micro enterprises, exacerbates the difficulties. Most of these enterprises are proprietary and unable to provide the documents required by banks. A combination of these factors has led to a paradoxical situation, wherein while 98% of MSMEs are micro and small, their share in banking sector credit to industry is merely 13%.

Most of the GSSs facilitate finance for setting up new micro-enterprise (with focus on investment up to Rs. 1-2 crore) creating vacuum for small businesses and working capital requirements for the next two to three years. Additionally, the subsidy driven mindset is not able to resolve the issue the access to finance rather the rising NPA level in GSS scheme is having negative impact on Bankers perspective of financing under GSS, while already facing issues of addressing the requirement of small businesses.

The involvement of alternate financing channels is missing from the state driven programs/schemes wherein the Micro lenders (MFIs/SFBs) are the best suited financing entity to cater to the missing middle segment between 1 lakh to 10 lakh. These micro lenders have extensive outreach, demonstrated capability and have built mechanisms for financing this segment. The partnership and involvement of these micro lenders in the government programs and schemes is by far limited or non-existent. Specific target based partnerships with these micro lenders with focus on financing small businesses and providing incentive to micro lenders to participate in targeted government scheme could change the scenario of access for these businesses.

The demand side challenges ranging from longer loan application processing time, complex and different documentation processes, difficulty in taking first time loan from formal financial institutions, lack of robust business plan, lack of knowledge on small business loans and geographical skewedness (lack of access points in rural areas) acts as deterrent for access to finance. On the same time entrepreneurs do not perceive high interest rate as deterrent for access to finance.

Targeted approach and policy interventions in the area of Missing Middle such as dedicated scheme with partnership of alternate financing channels, creation of dedicated sourcing and facilitating access for ACCESS TO FINANCE schemes, creation of database of tiny enterprises, removing access issues with digital platform for application for small businesses and linking business potential of business correspondents with small businesses could lead to better access to finance for smaller and tiny enterprises in the State. In addition, creation of dedicated ecosystem of fintech around financing small businesses in the State is critical with collaboration from private sector players.

Recommendations

Developing Dedicated Ecosystem

A comprehensive ecosystem for MSME financing is critical to improve financing opportunities for tiny enterprises and SMEs. In developing such an ecosystem, it is essential to establish effective institutional arrangements, including specific schemes insurance for projects and avenues for entrepreneurs to seek information, advice and technical assistance on issues such as debt resolution and management. Commercial banks, development banks, and MFIs can significantly improve their portfolios in this segment if a proper financing ecosystem is developed.

The new initiative of (CFL) Center for Financial Literacy, pioneered by the RBI in 2018, could play a pivotal role in developing an effective ecosystem on small business loans. The CFL is proposed in every block of the country in the next 5-10 years with financial inclusion, advisory and assistance services could become an inherent part of the CFL business plan. CFL could also act as an aggregator and source and screening business loan applications at the block level.

Dedicated Sourcing & Facilitating Agency for Small Business Loans

Most of the center and state government schemes facilitating ACCESS TO FINANCE for MSME and promotion of entrepreneurs have seen large role of government departments in implementation of role including facilitating and sourcing of applications apart from promotion of scheme. 80% of weightlifting is done by the concerned departments in generating loan applications for banks, wherein multiple departments with limited staff strength and expertise on ACCESS TO FINANCE working on completion of targets leading to serious gaps in business analysis, documentation and appropriateness of application as per banks criteria.

Creation of a dedicated sourcing agency having for Access to Finance schemes, which will cover all schemes of state government related to ACCESS TO FINANCE could be possible solution in addressing access and sourcing issues faced by entrepreneurs and bankers respectively at the same time reducing stress of departments who can focus more on better promotion, linkages and monitoring & follow up with FIs. Creation of dedicated sourcing agency will create significant expertise in the areas of ACCESS TO FINANCE with particular focus on small businesses. A revenue base model with Financial Institutions could also be worked out on sourcing, facilitation and regular monitoring by the dedicated sourcing agency of loan applications and entrepreneur business monitoring.

Dedicated Missing Middle Scheme for Small Businesses

A dedicated scheme specific to Rs 1-5 lakh segment for existing and new entrepreneurs on the line of PM Svanidhi Scheme could be introduced. GST linked subsidy model can be used to encourage entrepreneurs for better GST adoption and transparent subsidy utilisation and distribution.

Partnership with MFIs & SFBs

The segment of tiny enterprises/small business has been the target clientele for MFIs and SFBs. These institutions has specific focus and have built strong mechanism of appraisal and monitoring for financing segment. MFIs 100% clientele belongs small finance with emerging focus on enterprise lending. Partnership with MFIs and SFBs by developing special projects targeting small business financing with incentives for MFIs could lead to increased outreach and better access to finance for this segment.

Developing Dedicated Digital Lending Platform

One of the entrepreneurs' major suggestions and feedback is the ability to reach and deal with financial institutions and willingness for App-based digital application modules for small businesses. The entrepreneur/applicant can upload necessary documentation digitally with Aadhar authentication (including Udyog Aadhar & GST returns). It will reduce redundancies in the system and increase tracking of applications with an accountability framework of disposal of applications in a timely manner (both approval and rejection with reasons). Entrepreneurs have shown great enthusiasm and demanded an App-based application.

Developing Database of Tiny Entrepreneurs

Lack of data, genuine entrepreneurs and outreach are a few of the critical reasons for the inability of FIs to provide better financial services to this segment. State-driven database creation of small businesses could be taken up in the line of Udyog Aadhar with Aadhar and GST validation. The database can be used as targeted financial services by financial institutions, GSS and new-age lending institutions (Startup). The database can also be looked at as an extension or branching of the Samagra Samajik Suraksha Mission (SSSM) module wherein small businesses development and tracking could be done at the state level.

Business Plan for BCs around Small Loan Facilitation

Madhya Pradesh state has one of the best coverage of business correspondents in the country with presence of a business correspondent in every 5 kms, was also known as financial inclusion model of Madhya Pradesh. However, this vast network of BCs have not been utilised for asset business by banks. BCs could be utilised and incentivised on a business model based on sourcing, initial screening and repayment. The regularity of interaction and dealing of BC with its immediate ecosystem can be utilised for increasing the credit penetration for this segment.

Payments Mapping Based Lending Model

The study team noticed that around 90% of entrepreneurs in this segment are using digital payment options for payment from consumers. The payment transaction history of entrepreneurs can act as a proxy for their overall business volume and sales. A payment-based lending model can resolve multiple documentation and access issues for entrepreneurs as well as FIs. Payment driven lending model with the partnership of NPCI (data sharing) could be piloted in a few geographies with entrepreneurs.

Increased Allocation of Enterprise Portfolio for MFIs & SFBs

Small businesses require small loans, which may be too expensive to serve by commercial banks. In particular, the credit appraisal tools used to assess the risks associated with larger loans may not be appropriate for the evaluation of small business loan applications.

Currently, most MFIs & SFBs make these loans available for individual borrowers, in addition to their traditional group loans. Individual members of an MFI that have successfully repaid their group loans are eligible for individual microenterprise (ME) loans. There is significant scope for allocating a larger share of MFI portfolios to enterprise lending (above 1 lakh), which at present stands at 10%. The limit can be enhanced to 30%, allowing MFIs to graduate their clients into micro-entrepreneur clients.

Allocation of Small business Indicator in Annual Credit Plan (ACP)

Allocation of dedicated indicator of small loans up to Rs. 5 lakh (Capital and working capital) within MSME in the State and District Annual Credit Plan and reporting by banks on the same. This could be done in the similar lines of current indicator in ACP of loans to small and marginal farmers, bringing in the focus and target for financial institutions. Larger allocation of share of small businesses (up to Rs. 5 lakh) may be given to SFBs & MFIs within Annual Credit Plan.

Strengthening Fintech Environment around Small business loans in State

New age Fintech companies developing expertise in faceless and no contact loan process and loan sanctions using cutting age technologies and proxy indicators for business income have shown impressive growth in recent times particularly for small businesses. Peer to peer and crowd funding lending, which recently have been given green signal by RBI is also making deep impact on this segment. Developing a targeted Fintech incubator around ***Access to Finance*** for small businesses promoting state based fintech companies and collaboration with existing fintech companies operating in this environment is critical to improve the ***Access to Finance*** coverage for small businesses in the State in next 4-5 years.

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