



A PARADIGM SHIFT IN LENDING BEHAVIOR OF PRIVATE SECTOR BANKS IN INDIA WITH SPECIAL REFERENCE TO PRADHAN MANTRI EMPLOYMENT GENERATION PROGRAM

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Abstract: Considering the importance of MSMEs for economy and the nation, Government of India has launched several schemes for the benefits of MSMEs in India. Most of these schemes are being implemented through commercial Banks especially the PSU Banks in India. These government sponsored schemes have mutually benefited the MSMEs and Banks both. Private sector Banks in India were not known for taking part in lending activity in Government Sponsored Schemes. But now the scenario has changed and Private Sector Banks are also very keen in lending under Government Sponsored Scheme. The present study attempts to analysis the Paradigm Shift in Lending Behavior of Private Sector Banks in India: With Special Reference to Pradhan Mantri Employment Generation Program.

Index Terms - Component, formatting, style, styling, insert.

INTRODUCTION

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets.

MSMEs contribute more than 29% to the GDP and are responsible for 50% of the country's total exports. They are also accountable for one-third of India's manufacturing output. MSMEs employ more than 11 crore people, and the aim is to grow this number to 15 crores in the coming years.

Considering the importance of MSMEs for economy and the nation, Government of India has launched several schemes for the benefits of MSMEs in India. Most of these schemes are being implemented through commercial Banks especially the PSU Banks in India. These government sponsored schemes have mutually benefited the MSMEs and Banks both. Private sector Banks in India were not known for taking part in lending activity in Government Sponsored Schemes. But now the scenario has changed and Private Sector Banks are also very keen in lending under Government Sponsored Scheme.

Government of India has approved the introduction of a new credit linked subsidy programme called Prime Minister's Employment Generation Programme (PMEGP) by merging the two schemes that were in operation till 31.03.2008 namely Prime Minister's Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) for generation of employment opportunities through establishment of micro enterprises in rural as well as urban areas. PMEGP is a central sector scheme being administered by the Ministry of Micro, Small and Medium Enterprises (MoMSME). The Scheme being implemented by Khadi and Village Industries Commission (KVIC), a statutory organization under the administrative control of the Ministry of MSME as the single nodal agency at the National level. At the State level, the Scheme is being 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 being routed by KVIC through the identified Banks for eventual distribution to the beneficiaries/entrepreneurs in their Bank accounts.

Any individual, above 18 years of age. At least VIII standard pass for projects costing above Rs.10 lakh in the manufacturing sector and above Rs. 5 lakh in the business / service sector. Only new projects are considered for sanction under PMEGP. Self Help Groups (including those belonging to BPL provided that they have not availed benefits under any other Scheme), Institutions registered under

Societies Registration Act, 1860. Existing Units (under PMRY, REGP or any other scheme of Government of India or State Government) and the units that have already availed Government Subsidy under any other scheme of Government of India or State Government are NOT eligible.

LITERATURE REVIEW

Grant Thornton and FICCI (2011) concluded that the cost of capital is high for MSMEs, and that there is a need to reduce the time and documentation required for procuring finance.

Lahiri (2012) pointed out that with MSMEs' rising need for short-term and long-term capital, banks should move toward more innovative methods of lending to provide for those firms' financial needs.

According to **International Finance Corporation (2012)**, the supply of finance to the MSME sector is estimated to be 32.5 trillion Indian rupees (Rs). This total comprises contributions from informal finance, formal finance, and self-finance. Informal sources and self-finance contribute Rs25.5 trillion to the sector, of which informal finance accounts for Rs24.4 trillion. In other words, 78% of the finance used by MSMEs is met by informal sources and self-finance. The remaining 22% (Rs6.9 trillion) is provided by banks and NBFCs, of which banks provide the bulk (91.8%).

According to **Charan Singh and Kishinchand Poornima Wasdani (2016)** Finance for micro, small, and medium-sized enterprises (MSMEs) has been a concern for all stakeholders including entrepreneurs, financial institutions, and government organizations. The key objective of the study was to identify various challenges faced by MSMEs in sourcing of finance during different stages of their life cycle. This study is a first-of-its-kind attempt to focus on these aspects. The study further explores whether the financial awareness of MSME entrepreneurs is a major limitation in the identification and utilization of sources of finance. Data was collected through personal interviews using a structured questionnaire from a sample of 85 MSMEs. The survey was conducted mainly in the city of Bangalore covering a wide spectrum of sectors like precision tools, weavers, jewelers, food retailers, metal works, textiles, and bookshops. The results reinforce the findings of other studies that utilization of formal sources like banks is significantly small compared with informal sources like personal and family wealth. The study found that the main challenges faced in underutilization of formal sources were inadequacy of collateral assets and lack of financial awareness of entrepreneurs. Based on the conclusion that requirement of finance differs with the life-cycle stage of the MSMEs; recommendations have been proposed for entrepreneurs, financial institutions, and policy makers.

International Finance Corporation (2018): Financing India's MSMEs Estimation of Debt Requirement of MSMEs in India. This study aims to provide an assessment of the Micro, Small and Medium Enterprise sector finance in India. The chapters in the study highlight the key characteristics of the MSME sector, and assess the demand for, and the flow of credit into the sector. The study also evaluates the consequent gap in the financing needs of MSMEs. Finally, it explores potential interventions to boost the flow of formal credit to the sector.

RESEARCH GAP AND NEED FOR THE STUDY:

Very few, meager, limited and sporadic studies have been done on Best Credit Practices and Procedures in lending to MSMEs under PMEGP Scheme across Banks in India and even abroad. Even the available study did not focus on the outcome as a whole. The present study overcomes these drawbacks by doing the descriptive study of selected Banks. Analysis of year wise outlays under PMEGP (government sponsored) schemes have been done to see the growth pattern of different Banks.

PROBLEM STATEMENT:

Despite of the fact that Government Sponsored Schemes are mutually benefiting and gaining popularity in recent years not only among the MSMEs and PSU Banks but also in Private Sector Banks, no study has been carried out to understand the efficiency of the banks in lending to MSMEs under Pradhan Mantri Employment Generation Program. To understand & measured the efficiency of the process and procedures adopted by the selected Banks in lending to MSMEs under Pradhan Mantri Employment Generation Program (PMEGP), the present study has compared the year wise percentage growth in PMEGP portfolios of the selected group of Banks.

RESEARCH OBJECTIVES:

The objectives of the present study are given below.

Analysis of year wise outlays under "Pradhan Mantri Employment Generation Program" of selected Banks to know the efficiency of the banks in utilizing the Government sponsored scheme for increasing the MSMEs portfolio and understanding the behavioral shift in landing pattern of Private Sector Banks in India.

RESEARCH QUESTIONS:

1. What are the year wise outlays under PMEGP scheme of selected Banks?

HYPOTHESES:

The following hypotheses are tested in the present study.

1. H01 Year wise outlays under PMEGP scheme is same for all the selected group of Banks.

DATA AND VARIABLES:

Obtaining the data sets for the purpose of the study involved a comprehensive search of the databases of IBA, website of RBI and SEBI bulletins, data bank of CMIE, reports and statistical data and tables published on Banks in different Journals. The study has use the (balance sheet) data for 10 years from the year 2013 to 2022. Right to Information has also been used to obtain information from Reserve Bank of India and MSME Department, government of India. This period was chosen to represent the impact of several mergers & acquisition and COVID19, which occurred most in this period.

SOURCE OF DATA:

Keeping in view the above-mentioned objectives and hypotheses, the present study attempts to examine various aspects of lending under Pradhan Mantri Employment Generation Program. For the purpose of the study both Primary & secondary data has been used. Obtaining the datasets for the purpose of the study involved a comprehensive search of the databases of IBA, website of RBI, SEBI, Banks, data bank of CMIE, reports and statistical data and tables published on Banks in different journals. Following were the main source of data:

❖ Information obtained through Right to information from Reserve Bank of India, MSME Department and Khadi & Village Industries Commission of Government of India.

❖ Databases of IBA, CMIE, RBI

❖ Window-shopping in different branches of peer Banks

❖ Statistical data and tables published on Banks in different Journals.

❖ Website of the selected Bank.

❖ Investor's presentation and ABS of selected Banks.

The study has use the (balance sheet) data for 10 years from the year 2013 to 2022. This period was chosen to represent the impact of several mergers & acquisition and COVID19, which occurred most in this period.

For the purpose of primary data, market Inquiry and interview of MSMEs units (Banking with different Banks) were also conducted. Window-shopping in different Banks were done to know the procedure followed in that particular Banks.

This disaggregate study thus takes place at Bank level, with the selection of the Banks are being done based on the availability of relevant data and size of the Bank.

PERIOD OF STUDY:

The study has used the data for 10 years from the year 2012-13 to 2021-22. This period were chosen to represent the several merger & acquisition and COVID19 impacts, which occurred most in this period.

METHODOLOGY

The following methodologies have be used:

1. Year wise outlays under PMEGP (government-sponsored) scheme has been compared and analyzed for all the Banks.

DATA & ANALYSIS:

For the purpose understanding the efficiency of the Banks in lending to MSMEs, the present study has analyzed the outlay under PMEGP of different banks. The data of last ten years were not available in public domain hence data though Right to Information were asked from MSMEs department. Khadi & Village industries Commission has provided the information on performance since FY 2012-13 to FY 2021-22 under PMEGP Scheme. The data received were not Bank wise. KVIC has classified the banks in three categories:

1. State Bank of India
2. Public Sector Bank
3. Other

The available data were not sufficient to compare the Bank wise performance under PMEGP, however with the help of data set the performance of State Bank of India has been compared with other Public Sector Bank. Private sector Banks has also been compared with State Bank of India and other Public Sector Banks. The available data is showing the paradigm shift in lending behavior of Private Sector Banks in India. Earlier, the Private Sector Banks were not utilizing the opportunity given by Government of India to lend to MSMEs under Government of India sponsored schemes. But the present shift in their lending behavior shows that, now the private sector Banks are ready to make a cut in the market share of PSU Banks in this segment too.

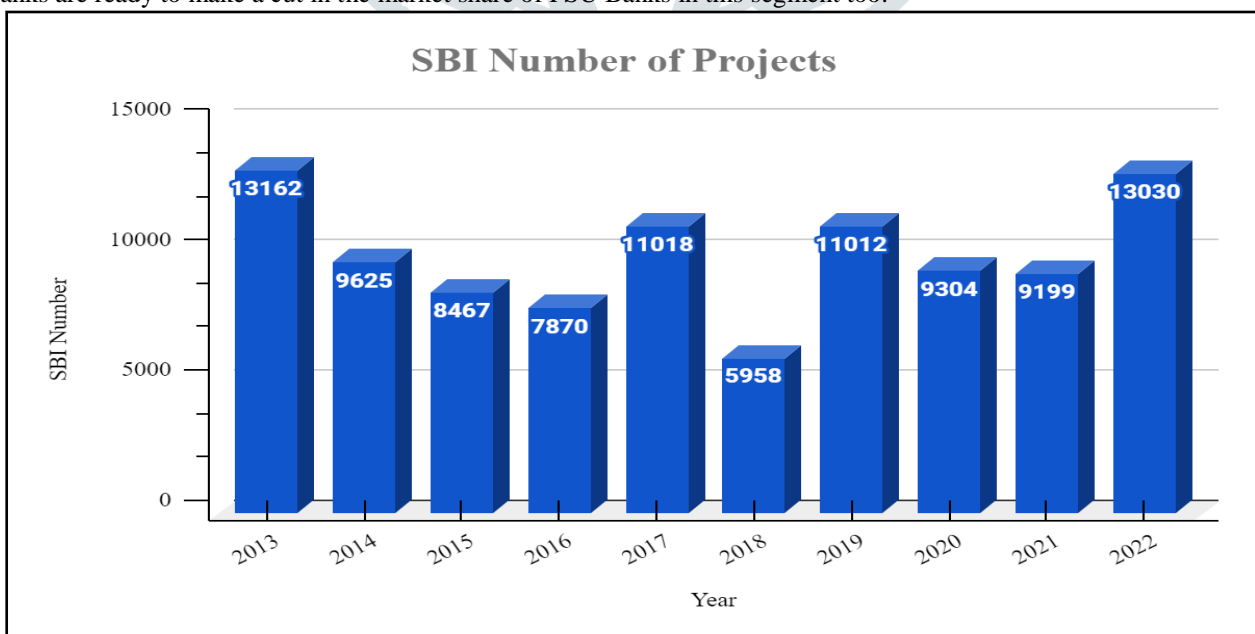


Table: 7.1 Source: Reply of RTI by Khadi & Village Industries Commission.

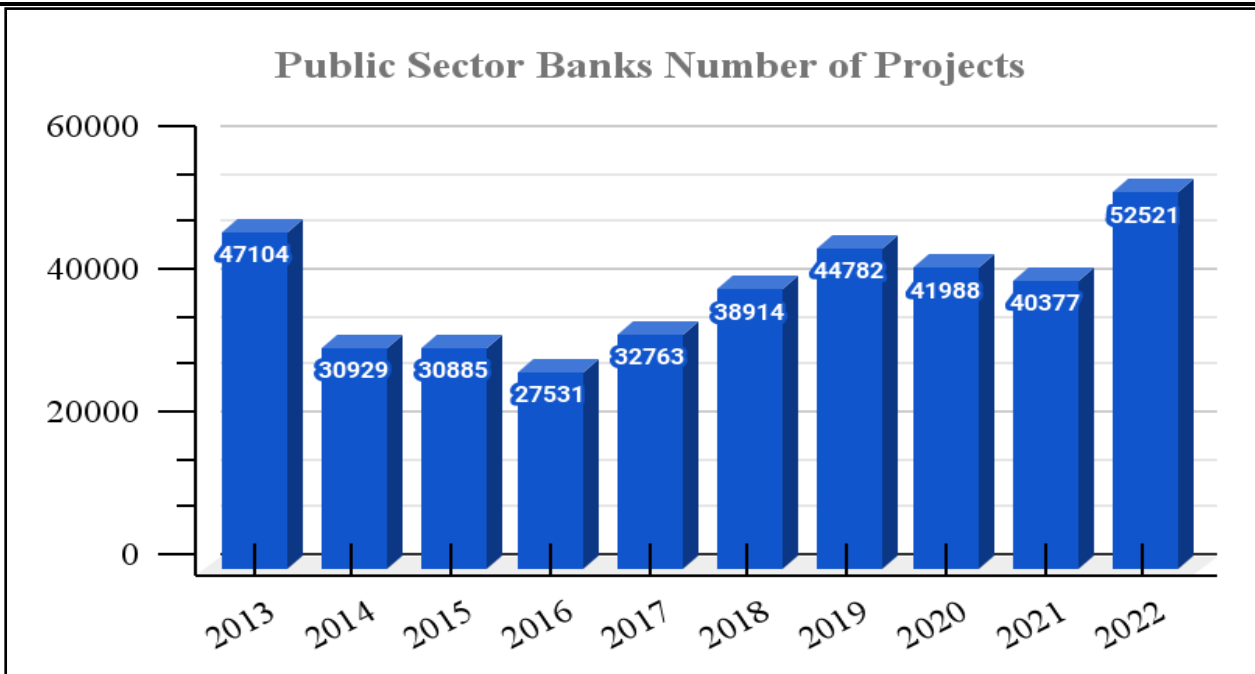


Table 7.2 Source: Reply of RTI by Khadi & Village Industries Commission

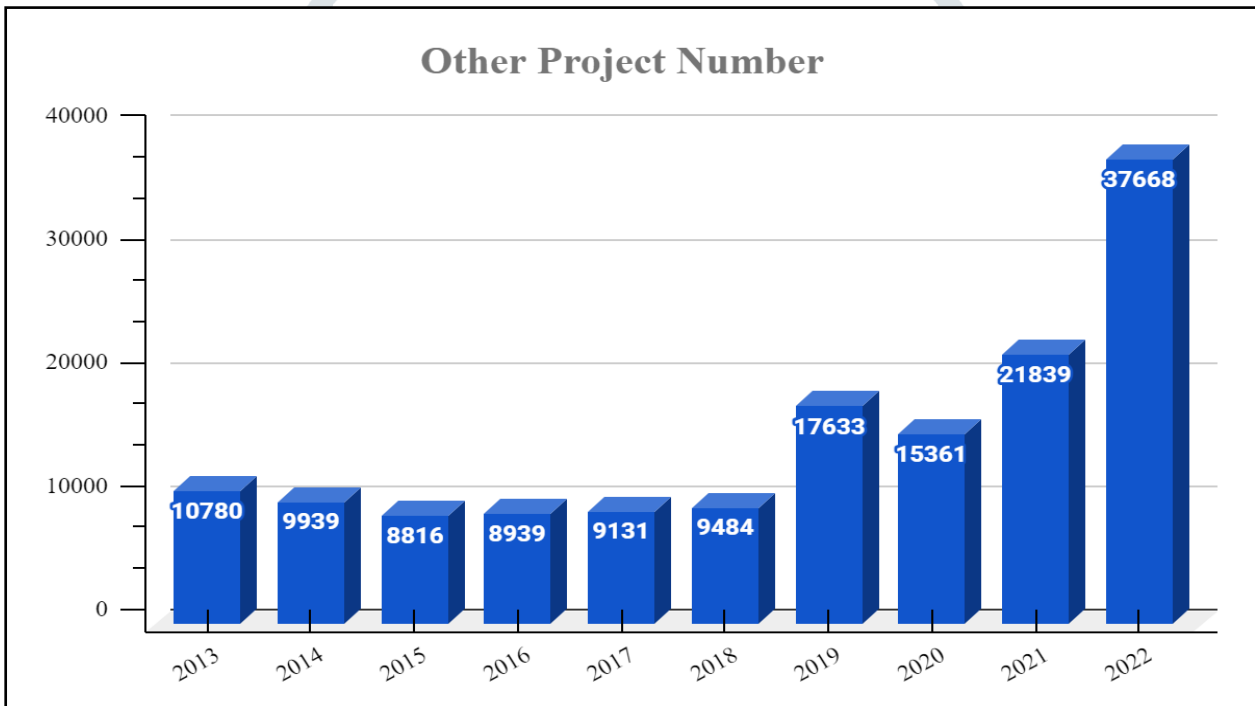


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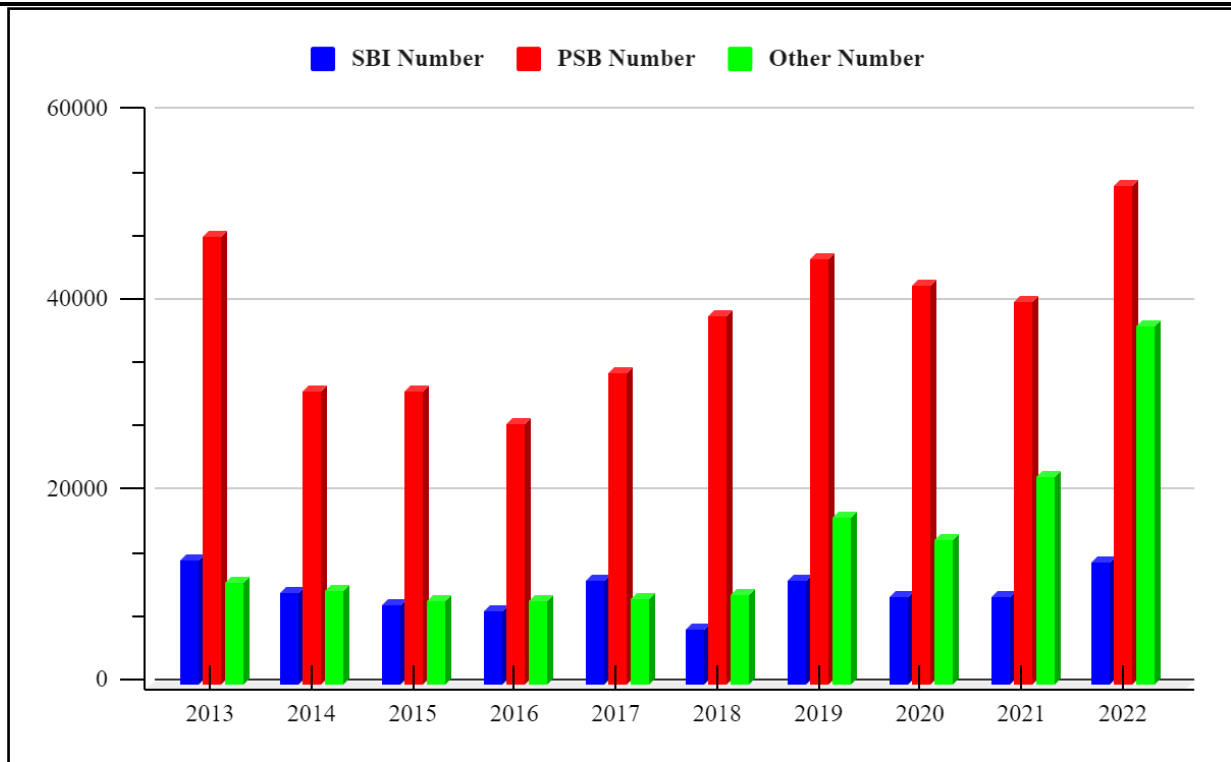


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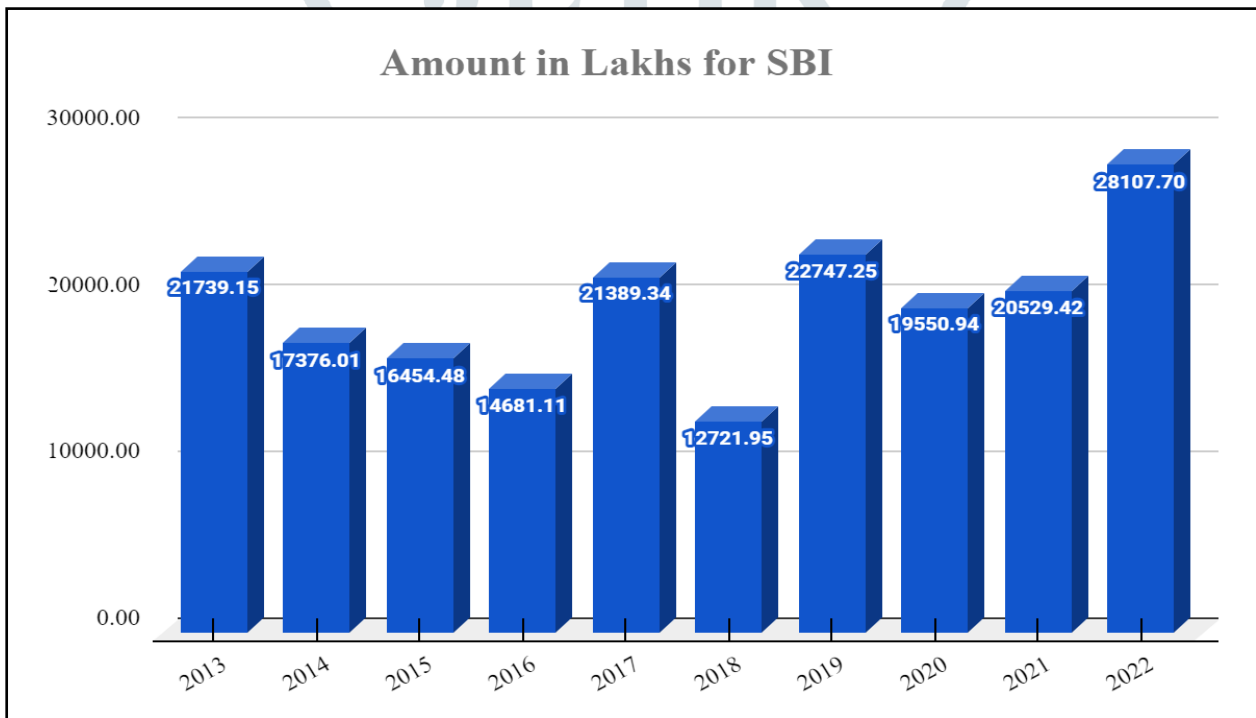


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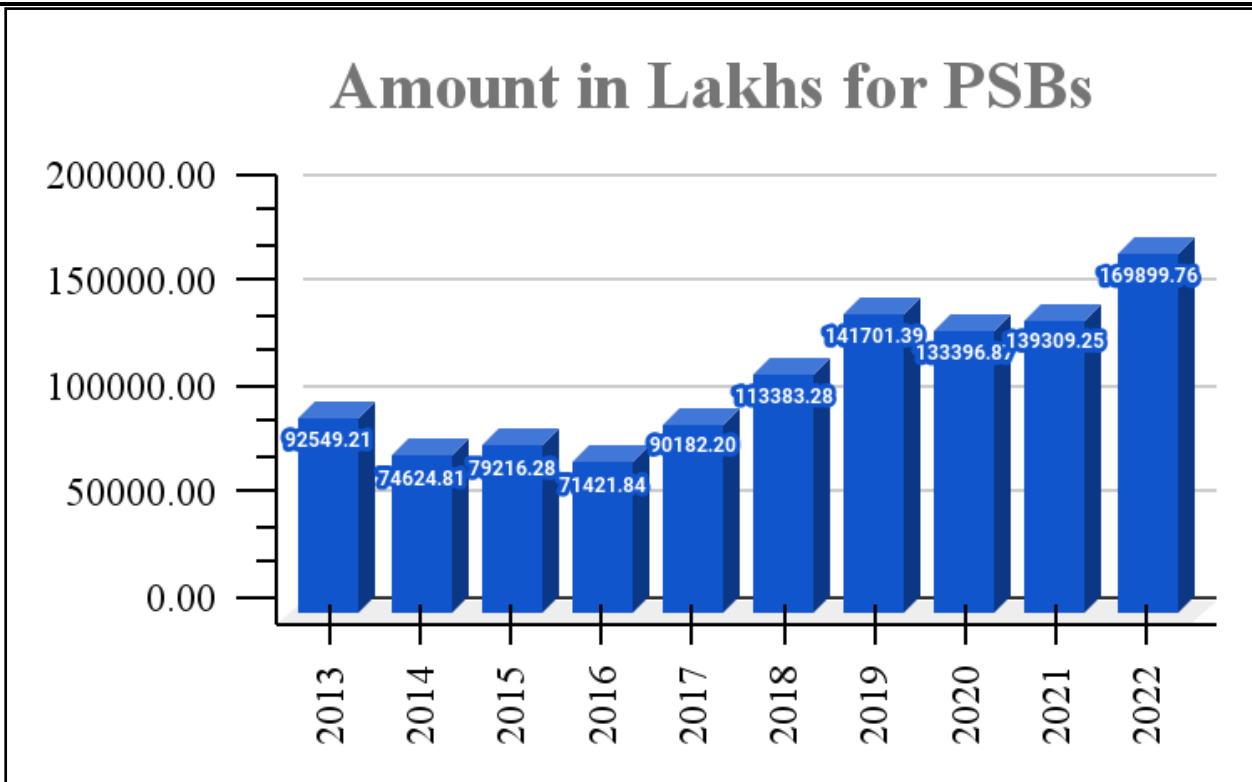


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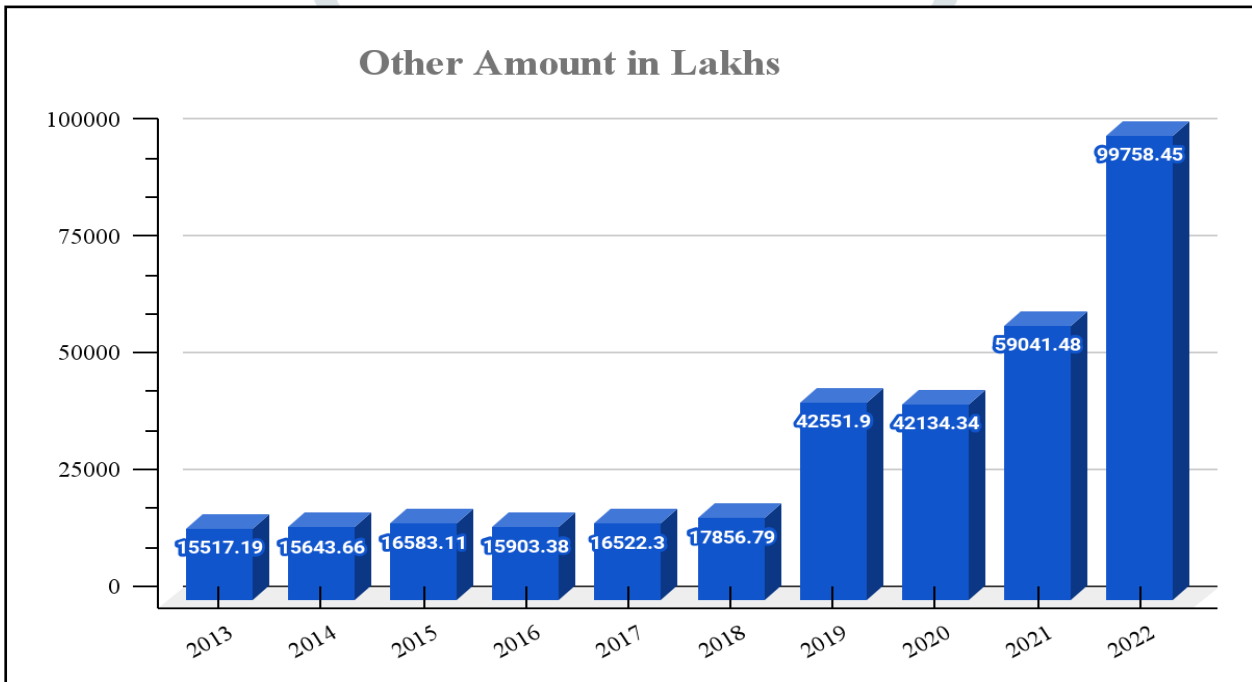


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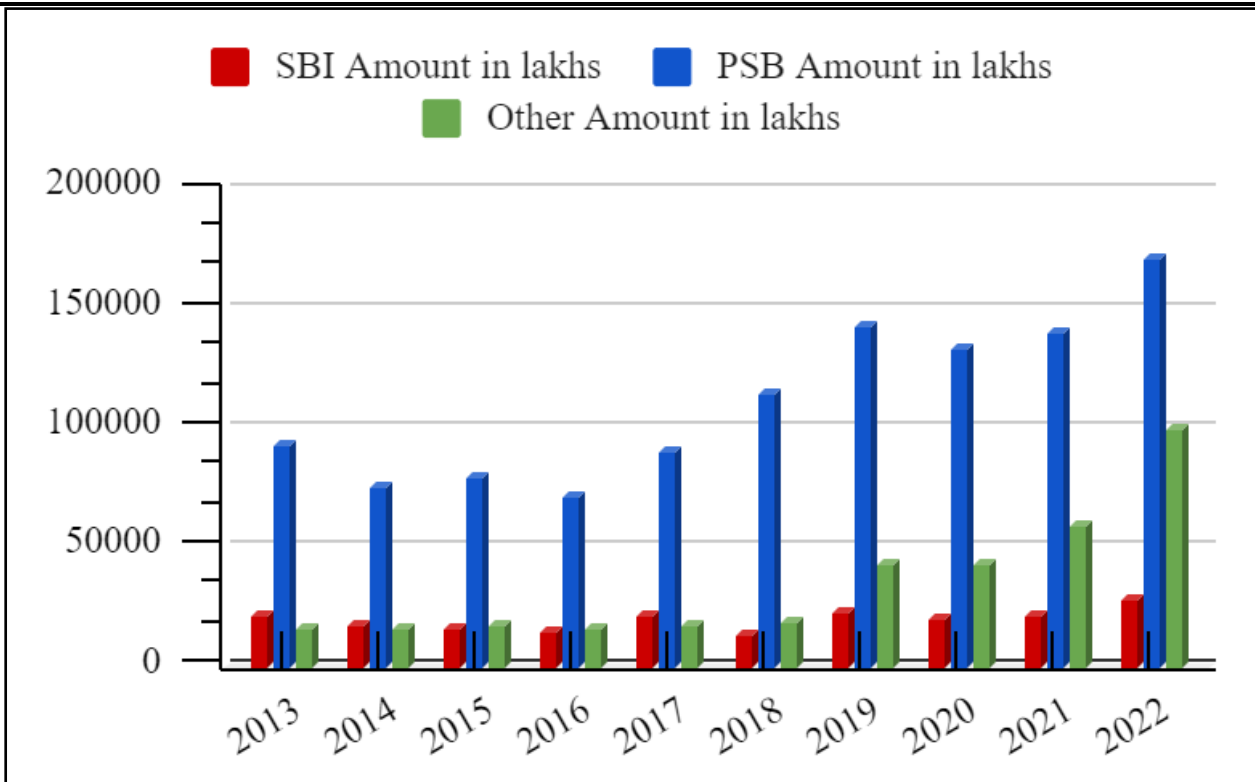


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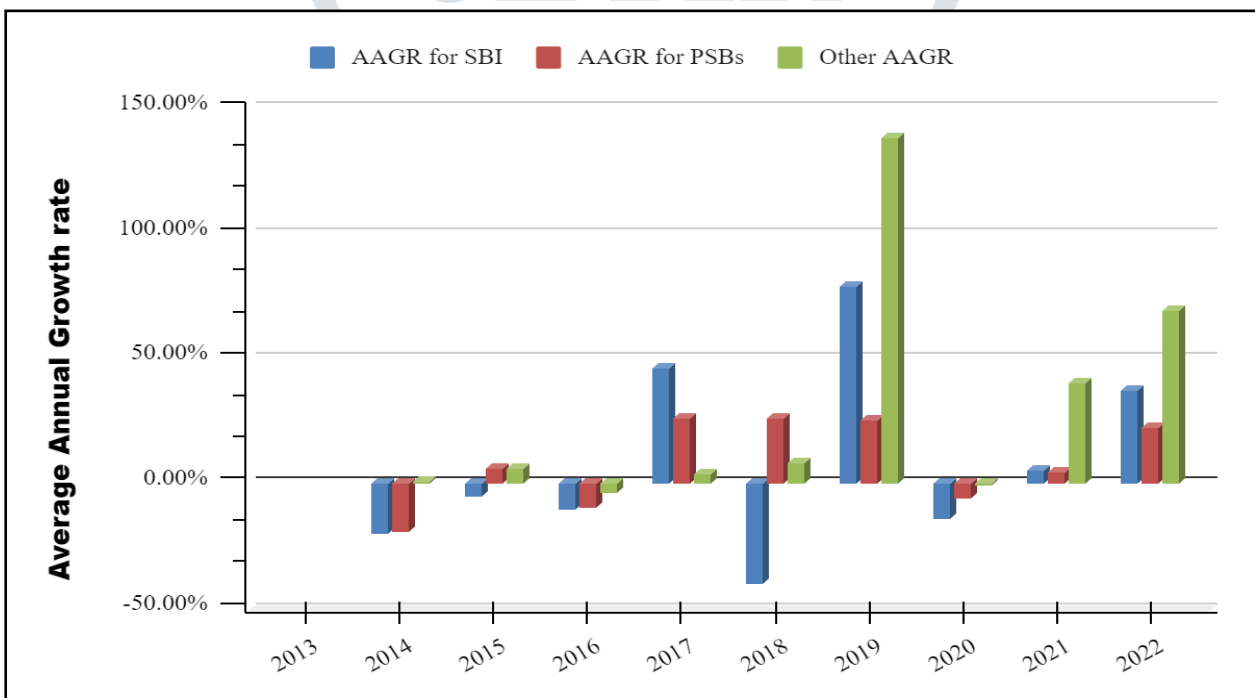


Table 7.9 Source: Reply of RTI by Khadi & Village Industries Commission

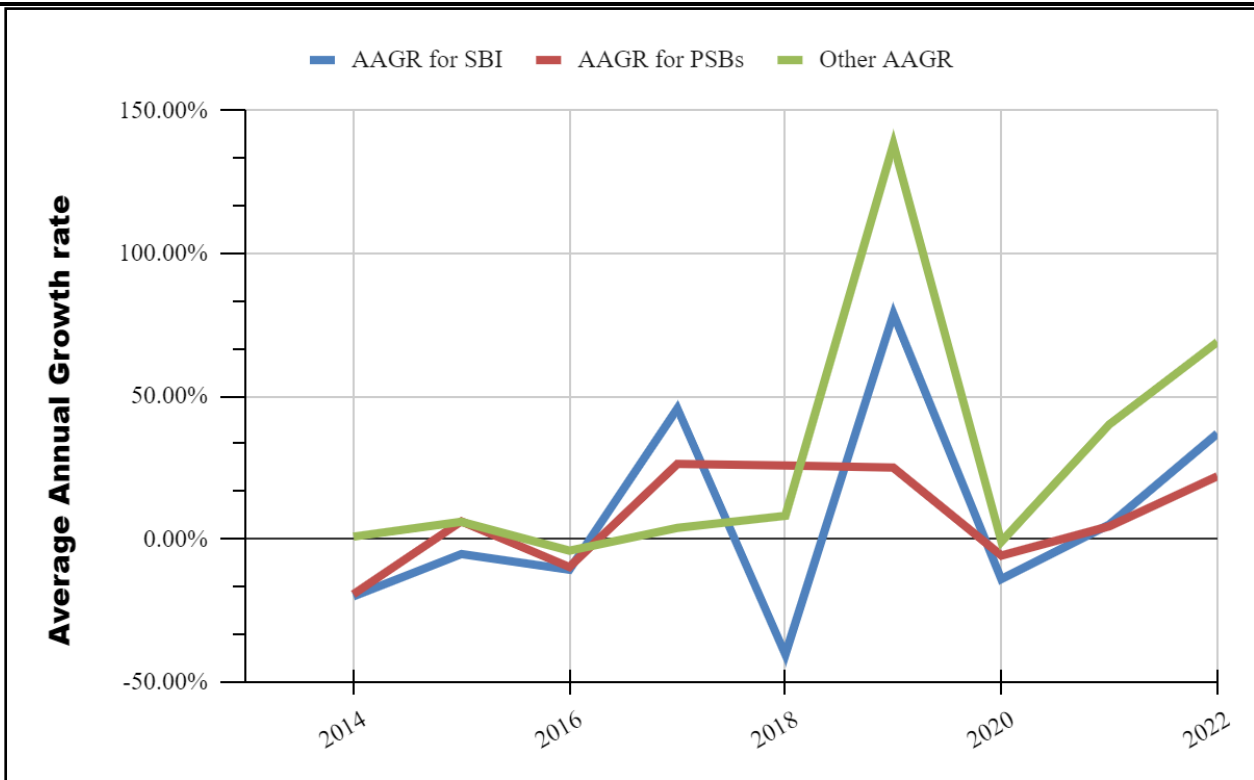


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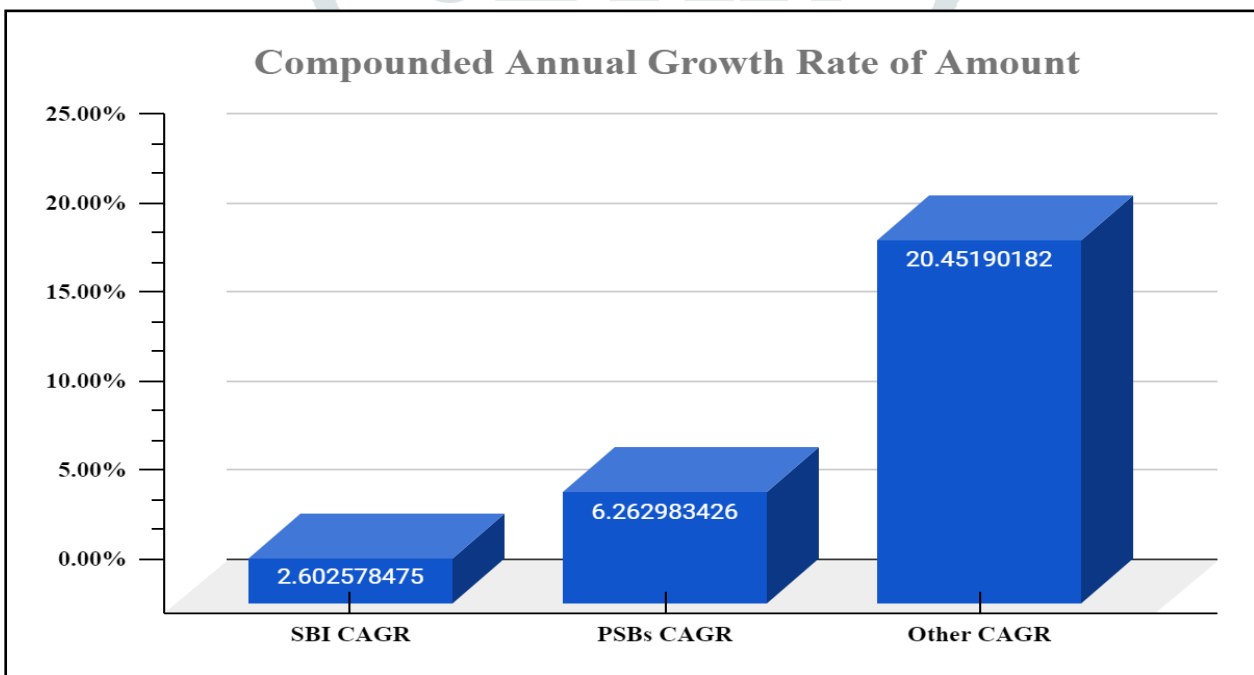


Table 7.11 Source: Reply of RTI by Khadi & Village Industries Commission

OUTCOME OF THE STUDY AND POLICY SUGGESTION:

The above study shows that after FY 2018 other Banks has registered highest growth.

- ❖ It shows that Private sector Bank are now started focusing on Government Sponsored Scheme too. This is another business threat for the Public Sector Banks.
- ❖ The study also apparent that the COVID-19 has also affected the sanction and disbursement of PMEGP Loan, which in turn affected the employment generation in country.
- ❖ The result also shows that even the growth rate of SBI is higher than the other Public Sector Bank.
- ❖ Because of unavailability of comprehensive data, the study are not in position to analyze the impact of Branch network on growth in government-sponsored scheme. However with common understanding, it can be inferred that, with expansion of Branch network in semi urban and rural, Private sector banks are increasing the portfolio of their PMEGP loans. Even State Bank of India is getting the benefit of its rural & semi urban networks.
- ❖ More focused approach on government-sponsored scheme will help banks to increase their MSMEs portfolio.

SCOPE OF THE STUDY:

The present study focuses on the paradigm shift in lending behavior of Private Sector Banks in India. This is analyzed by the data obtained from different governmental reports, Reserve Bank of India, MSMEs Department, SIDBI and Banks website for the period

2013 to 2022 in order to derive and determine the paradigm shift in lending behavior of Private Sector Banks. The scope of the study thus remains to enable to add to the limited existing body of literature on the paradigm shift in lending behavior of Private Sector Banks with special reference to PMEGP Scheme.

SIGNIFICANCE OF THE STUDY:

The study bears significance that the MSMEs has not been given importance in past that it is rightfully deserved in the performing and operating economy. This may be attributed to the attention that was focused on the corporate sector. The findings of the study will enable to shed light on the best Credit Practices, Procedures and Products for MSMEs across Banks and towards the economic development of the nation as a whole. The findings of the study bear implication to future research in the same aspect.

LIMITATION OF THE STUDY & SCOPE OF FURTHER STUDY:

❖ Bank wise study has not been conducted. The present study opined that the Private Sector Banks are increasing the thrust in lending under PMEGP Scheme but it does not confirm which private sector bank is most efficient.

❖ A Bank wise data may be obtained and further study may be done to know the most efficient Bank in lending under PMEGP Scheme. Other Banks may be suggested to follow the procedure adopted by most efficient Bank.

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