Role and Contribution of Commercial Banks in Fulfilling Funding Requirement of MSMEs of Himachal Pradesh

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Abstract In any economy, banks are considered as the prime source of formal finance especially for Micro, Small and Medium Enterprises (MSMEs) though their contribution towards MSMEs' financing is confined to 17.7 percent of total industrial lending. Despite the fact that MSME sector contributes 8 per cent of GDP, 45 per cent of manufacturing output, 40 percent of exports in India, the sector have remained neglected and banks are reluctant to finance MSMEs due to risk associated with them(Gola. K. R. 2015, Aryeetey 1994). So the study focuses onanalyzing contribution of commercial banks and assessing the factors affecting bankers risk perception towards financing MSMEs in state of Himachal Pradesh. Study basically used cross tabulation, T test and ANOVA to find the difference in lending pattern and risk perception of Public Sector Bank and Other Commercial Banks (Pvt. Sector Banks and Rural Regional Banks). The Study concluded that there is no significant difference in risk perception of public sector banks and non public sector banks, as p>0.05 i.e. 0.97, t (28) =0.157, p = 0.876. Further there is significant difference in lending pattern of banks to MSMEs and public sector banks contribute more towards financing MSMEs in the state of Himachal Pradesh.

Key words: Industrialization, Lending and advances, MSMEs, NPA, Risk Perception, Rural Regional Banks,

I.   INTRODUCTION

Banking sector is an indispensable part of economy of any country. Bankers are considered as the curators of public money who have the responsibility of channelizing this money towards viable projects conceived by entrepreneurs. The spread retained as margin acts as income for the banking sector. Though, keeping safe detention of public money is the primary responsibility of banks however ensuring ample money supply in the system for credit creation leading to economic growth is also their area of concern.Finance is akin to life blood in a human body which is required in adequate quantity for human survival and growth.   Likewise the existence of any firm is threatened if it does not have sufficient money supply at the time of need. The review of literature indicates that in general the banks have been reluctant to finance small enterprises considering them as perilous due to various factors like small size and mode of operation, improper account maintenance, lack of owner's experience etc. To allay such credit risks the banks typically look for enhanced collateral security or sanction loans at higher interest rates both of which are equally thorny for most entrepreneurs. Amongst all the challenges faced by Small and Medium Enterprises (SMEs) in India and across world, getting timely and adequate financing is considered as the biggest challenge (De, Sankar 2009. Nanda, R & William R. 2009)

1.1 CONCEPTUAL FRAMEWORK OF BANKING INDUSTRY IN INDIA

Despite the fact thatbanking industry emerged way back in 1770 with the surfacing of Bank of Hindustan, it has been nourished with the establishment of State Bank of India (formerly known as Imperial Bank of India) in 1955.In course of time, majority of the stake in bank was acquired by Reserve Bank of India (RBI) followed by nationalization of eight banks in 1960, which were considered as subsidiaries of SBI. Later on, additional 14 banks in 1969 and six banks in 1980 were nationalized with the motto to evade concentration of money in few hands and channelize the money in economy.

Banking Sector has been basically classified into two categories i.e. Scheduled and Unscheduled Banks. Scheduled banks are listed in second schedule of RBI Act 1934 and comprises of'Commercial banks and Co-operative Banks'.As indicated in RBI Annual Report 2017, total 302 categories of commercial banks having a wide network of 140541 bank branches render financial services to serve the versatile urge of individuals and firms in India.Wherein Public Sector Banks (PSBs) has been leading in terms of branch network having sizable presence of 65 percent of total branches, followed by Private Sector Banks (Pvt.SB) and Rural Regional Banks (RRBs) having presence of 19 percent and 15 percent respectively. Foreign Banks(FBs)

and other bankshave just 1 percent share in branch penetration.

In spite of gigantic dispersion of branch network of commercial banks in India, MSME sector is still deprived of access to formal sources of finance for fulfilling their funding requirement. The financing needs of the sector depend upon and vary with variation inbusiness size, customer segment, and industry.The central as well as state governments have directed the banks/ FIs to support the MSMEs and come up with subsidies and easy financing schemes still the FIs consider MSMEs as high risk customers.

1.2 MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

MSMEs are considered to be the backbone of Indian economy which acts as incubators for talent, innovation and entrepreneurial spirit, essential for the country's development. The Micro Small Medium Enterprises Development (MSMED) Act 2006 came into force on October 2, 2006. As per the act any enterprises engaged in the manufacturing or production, processing, preservation of goods pertaining to any industry specified in the first schedule to the Industry Development and Regulation Act, 1951, and rendering services may be termed as

1) Micro enterprise in case investment in plant and machinery does not exceed ☐2.5 million for manufacturing concern, and one million for service concern.
2) Small Enterprise in case investment in plant and machinery ranges from ☐2.5 to ☐50 million for manufacturing concern and one million to ☐20 million for service concern.
3) Medium Enterprise where investment is more than ☐50 million but does not exceed ☐100 million for manufacturing concern and In case of service enterprises investment in equipments is more than 20 million rupees but does not exceed 5 core rupees"[1]

The enterprise may be a proprietor firm, partnership, and Hindu undivided family, association of persons, co-operative society, company or undertaking.

Contribution of MSME in terms of advancement of country and growth of industrialization has been commendable as manufacturing contribution by MSMEs comprises of 33% of total manufactured output, 6% of national GDP and 45% of the exports in India. The sector has imperative significance in field of employment generation next to agriculture in India. As perNational Sample Survey (NSS) 2015-16, 63.3 million of micro enterprises representing 99.47 percent of MSMEs, have generated employment for 110.9 million people representing 97 percent of population engaged in MSME sector.

In spite of the vital contribution of this sector towards 'GDP, Employment and Income Generation' in our economy, the sector remains neglected and faces many challenges where ease in getting finance for smooth running of their business is the most prominent one.(Nanda, R & William R. 2009.Hussain and Yaqub 2010).

So the present study has attempted to focus on assessing role of commercial banks in financing MSMEs in the state in general and the country in particular.

II.   LITERATURE REVIEW

Banker's decision making is largely affected by business and entrepreneurial characteristics of firms (Han 2008) so they prefer financing large firms over small and medium scale firms (Aryeetey et al 1994) due to risk associated with small firms. Further profit earning of SMEs, legal formation of the firm, stages of development of the firm, number of default firm made in previous loans, availability of collateral, payment history of firm, preparation of financial statements, feasibility of the proposed project and experience of management in business increases risk associated with business (Ghatak, A) and **high cost, asymmetric information, high risk perception and lack of collateral** leads to lesser fund disbursement amongst MSEs(Ghatak, Shambhu. 2010). Bank consider time of loan as a major parameter for credit disbursal and more often sanction short term loans to SMEs (**BOAD and AFD, 2011) so** young firms (less than four years) rely more on internal financing than bank financing. (**Klapper et al. (2010).This was further supported by Kouadio, (2012)** that basically highlighted in his study that 77.41%, of the banks credits are often issued for short-term, 16.17% for medium term and 1.86% for the long term. In other words, the ability of SMEs to access loans may also depend on the duration of the loans.

Ghimire& Abo (2013) in his study highlighted the problem of inadequate finance as major challenge faced by MSMEs. He further stated that majority of enterprises (60 %) faced bank rejection of their loan application wherein micro enterprises (88 %) were the major victim while just 10 percent rejected applications belonged to small enterprises. Further younger firms (0-2 years of establishment) were rejected out rightly indicating age as important factor determining loan preference of bankers. He finally concluded that issues related to inadequate collateral and lack of financial information were major constraints for SMEs to obtain bank loans.

Haron, H.et.al. (2013) in his study highlighted major three factors, ' management, collateral and ability to pay considered by banks for accessing creditworthiness of MSMEs so bankers as on today focus on making relation with clients. The study proved that presence of character,

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[1]Retrieved from
https://rbi.org.in/scripts/NotificationUser.aspx.Notifications No.S.O. 1722(E) dated October 5, 2006 (Annex I).

capacity and collateral has significant impact on loan approval by lender and increases the likelihood of loan approval.

Ahuja 2013 in Indian Express which states that 25% of SMEs in Punjab, Haryana, JK, Uttrakhand, HP, Rajsthan are either closed or struggling for survival due to expensive credit, non availability of timely and adequate funds and power shortage up to extent of 35% and delayed payment by large firms.

Kushalakshi and Raghurama A. (2016) highlighted the contribution of commercial banks since 2012 to 2015 in the state of Karnataka. The study stated that rapid industrial growth (23.5%) has been accompanied by increase in number of bank branches (19 %).

No doubt, commercial banks have been contributing largely towards financing MSMEs (Kushalakshi and Raghurama A. 2016)and approx 87 percent of major financing sanctioned through the formal financial institutions has been contributed by commercial banks in 2011 and the same has grown by 34 percept over last year (CII-PwC report 2013) and loan disbursement in small scale sector through IDBI, SIDBI, SFC,TIIC and bank credit to priority sector has increased 2.32, 6.17, 1.13, 5.13 and 9.05 times since 1998-99 to 2010-11 (Selvaraj N and Balaji P.K. 2017)

2. NEED OF THE STUDY

The review of available literature on the topic indicates that banks play an important role in growth and development of small enterprises and is preferred the most by MSMEs for raising finances. However,the sector facesnumerous challenges for getting financial assistance from the banks and financial institutions. (**Kali Ram Gola2015).**The review of available literature thus shows a paradox in terms of banker's contribution towards MSME financing and factors restricting them to finance small enterprises.In view of this paradox the need arises for studying bank's contribution in supporting MSMEs financially on the one hand and assessing their risk perception towards MSME financing on the otherwhich is of paramount academic and research interest. Very few studies in the related area have been undertaken in North India in general and in the state of Himachal Pradesh in particular. Himachal Pradesh, which stands at 22nd place in terms of working enterprises in India (as on April 2018) has been selected to find out 'Contribution of Commercial Banks in Financing MSMEs in the state along with assessing banker's perspective towards MSME Financing.

3. OBJECTIVES

The objectives of the proposed study include:

- To analyze the contribution of commercial banks in funding MSMEs in the state of Himachal Pradesh.

- To assess the factors affecting banker's risk perception about MSME financing in the state of Himachal Pradesh.

III.   SCOPE OF THE STUDY

A descriptive research design has been used.

3.1 Sampling

There are total thirty two categories of banks in the state of HP including twenty four Public Sector Banks (PSBs), seven Private sector Banks and one Regional Rural Bank which have collectively disbursed Rs. 712.38 billion among MSMEs till March 31, 2017 (as per SLBC report 2016-17).Sincethis researchis basically focused on studying the contribution of commercial banks in financing MSME in the State hence ten categories of banks out of thirty two operating therein have been chosen for the study. The study includes top six Public Sector Banks (PSBs), contributing around 88 percent in total lending of PSBs, one Rural Regional Bank (RRB) contributing 100 percent and three Private Sector Banks (Pvt SB) contributing 82 percent of total private sector banks .There are 195 branches of selected PSBs, 21 branches of RRBs, and 26 branches of Pvt SB in both the districts. State Bank of India, Punjab National Bank, UCO Bank, Central Bank of India, Canara Bank, Union Bank of India, HP Gramin Bank, HDFC, ICICI and IndusInd Bank have beenbeen taken for study which adequately represent the suppliers' perspective.

Further, two important districts of HP out of twelve namely Solan(investment worth Rs. 104.4253 billion) and Sirmaur(Investment worth Rs. 19.6752 billion) have been selected for the study as these havebagged themaximum capital investment, which is around 80 percent of entire investment in MSMEs in the state (Rs.124.1005 billion out of 152.24 billion) till the end of March 31, 2017.

3.2 Data Collection

Both primary and secondary sources have been used for data collection.

The primary data has been collected from the banks using structured, close ended Questionnaires and personal interview method. Probability Proportionate to size sampling method has been used for selection of 30 Bank branches out of total 242 in these two districts representing 12 percent population. 19 bank branches from district Solan (152/242*30) and 11 bank branches from District Sirmaur (90/242*30) has been chosen, which is further bifurcated among two districts proportionately. 15 branches of public sector banks, two branches of private sector banks and 2 branches of rural regional banks have been selected from district Solan. 9 branches of public sector banks, onebranch of private sector bank and one branch of rural regional bank has been surveyed in district Sirmaur.

Secondary data sources like HP Annual Administrative Reports, Reports from Directorate of Industries, State Level

Bankers Committee Reports, economic and statistical surveys, journals, manuals and other published literature along with relevant websites like RBI, MSME, dcmsme.com etc. has been used in the study.

5.3 Tools Used: The data so collected has been analyzed using statistical tools like ratio analysis, correlation analysis, T test, one way ANOVA etc.

IV. LENDING PATTERN OF SCHEDULED COMMERCIAL BANKS

As per the RBI data (as on March 31, 2017), out of total lending of 26800 billion to industry by the banks, a major chunk (82.3 percent) has been cornered by large enterprises and only a small portion (17.7 percent) has been allocated to MSMEs.

Out of the total funds disbursed to MSMEs (4745.45 Billions)a lion's share of around 78 percent has been cornered by the Micro and Small Enterprises. Nonbanking Financial Corporations (NBFCs) also have lent 8940 Billions to industrial sector that is almost 60 percent of their total advances. However the situation is worst if we take into account the disbursements made by NBFCs to MSMEs which is only 7.6percent. Currently out of the total priority sector lending, 37 percent credit has been allocated to micro and small (manufacturing and service) units.
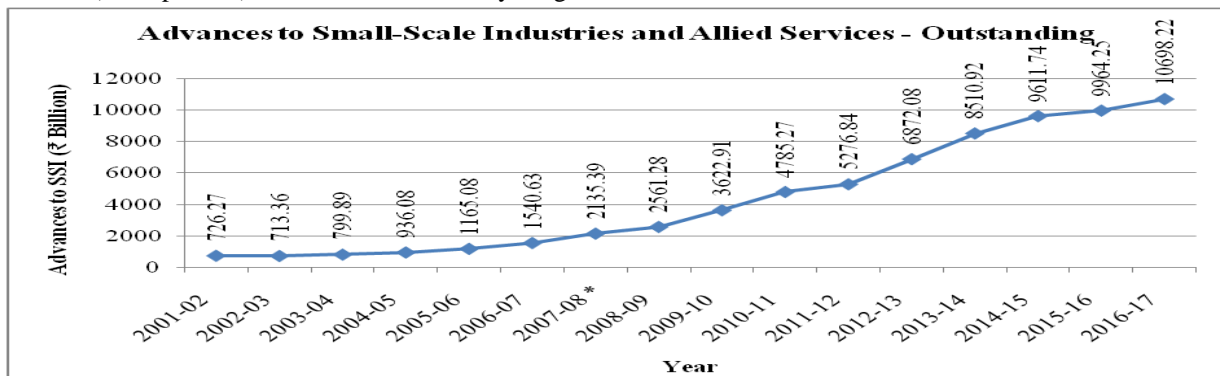

Figure 1: Outstanding advances to small scale industries and allied services

Source- Table 62: Scheduled Commercial Banks' advances to SSIs and Allied Services – outstanding advances at www.rbi.org.in

As depicted in Figure 1, outstanding loan of small scale industries and Allied Services has increased multifold over years. It has increased steadily from 726.27 billion in FY 2001-02 to 936.08 billion in FY 2004-05 indicating growth of 29 percents. After 2004-05, Loan disbursements amplified to 3622.91billion in year 2009-10, indicating growth of 287 percent in five years. The memento continued and loan amount reached at the level of 10698.22billion in FY 2016-17. Total growth of 600 percent in loan disbursement in the last decade indicates significant contribution of commercial banks in financing small enterprises in India.

Table 1.1
Loan disbursed by Commercial Banks in Himachal Pradesh (amount in millions)

Year	Public Sector Bank	Rural Regional Bank	Private Sector Bank	Total Commercial Banks' lending
Mar-08	17,418.38	633.90	2.00	18,054.28
Mar-09	18,605.45 (6.8)	894.00 (41.0)	593.00 (29550)	20,092.45 (11.3)
Mar-10	31,643.20 (70.1)	1,138.80 (27.4)	628.00 (5.9)	33,410.00 (66.3)
Mar-11	41,916.92 (32.5)	1,949.80 (71.2)	1,191.73 (89.8)	45,056.58 (34.9)
Mar-12	50,771.20 (21.1)	2,580.70 (32.4)	848.80 (-28.8)	54,200.70 (20.3)
Mar-13	58,128.30 (14.5)	3,618.60 (40.2)	2,319.40 (173.3)	64,066.30 (18.2)
Mar-14	66,196.00 (13.9)	3,423.20 (-5.4)	3,777.70 (62.9)	73,396.90 (14.6)
Mar-15	61,890.60 (-6.5)	2,844.20 (-16.9)	2,724.01 (-27.9)	67,458.81 (-8.1)
Mar-16	61,327.80 (-0.9)	4,041.50 (42.1)	3,993.90 (46.6)	69,363.20 (2.8)
Mar-17	62,760.10 (2.3)	4,162.90 (3.0)	4,315.30 (8.0)	71,238.30 (2.7)

Figures in parenthesis are absolute change

As indicated in Table 1.1, the loans disbursed by commercial banks to MSME sector has increased during FY 2009-10 by 66 percent though proportionate growth reduced afterwardsand eventually turned negative (-8.1 percent) in FY 2014-15, which however stabilized then onward. In totality,outstanding funds amounting ▢ 71,238.30 million has been disbursed by commercial banks till March 2017 in the state of Himachal Pradesh.Loan disbursed by private sector banks had shown remarkable growth comparatively as loan disbursed grew by 89.8 percent in FY 2010-11 and that of public sector banks and rural regional bank increased by 32.5 and 71 percent respectively. Again in FY 2012-13, there was an absolute growth in loan disbursement by 173 percent, 40 percent and 14.5 percent of private sector banks, rural regional banks and public sector banks respectively.

(H0-1): There is no significant difference in the lending pattern of Public Sector Banks and Non PSBs (private sector banks and rural regional banks) to MSME sector in the state of Himachal Pradesh.

Table 1.2 Group Statistics and Independent Samples Test

	Category	N	Mean	Std. Deviation	Std. Error Mean
Lending Amt	PSB	10	47065.7000	18633.75738	5892.51147
	Non PSB	20	2284.1500	1445.80505	323.29184

		Levene's Test for Equality of Variances		t-test for Equality of Means					95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Category	Equal variances assumed	59.536	.000	10.876	28	.000	44781.55	4117.47	36347.29	53215.81
	Equal variances not assumed			7.588	9.054	.000	44781.55	5901.37	31443.89	58119.21

As shown in Table 1.2, An independent-samples t-test was conducted to compare lending pattern of Public Sector bank and Non Public sector Banks (Pvt. and RRB) to MSMEs in Himachal Pradesh.

As $p<0.05$ i.e. 0.000, and F value i.e. 59.536 is greater than the tabled value $F_{0.05} = 3.55$.There was a significant difference in the scores for Public Sector banks (Mean 47065.7, SD 18633.76) and Non Public Sector Banks (Mean 2284.15, SD 1445.80) t $(9.05) =7.588$, $p = 0.000$." The result suggest that category wise there is difference in lending pattern of Banks to MSMEs and Public Sector Banks are lending more funds to MSMEs.

So the null hypothesis is rejected it simply indicate that there is a significant difference in the lending pattern of public sector banks and Non Public Sector Banks

Table 1.3 Multiple Comparisons (LSD)- Post Hoc Test

(I) VAR00002	(J) VAR00002	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
1	2	44536.80000*	4840.77654	.000	34604.347	54469.253
	3	45026.30000*	4840.77654	.000	35093.847	54958.753
2	1	-44536.80000*	4840.77654	.000	-54469.253	-34604.347
	3	489.50000	4840.77654	.920	-9442.953	10421.953
3	1	-45026.30000*	4840.77654	.000	-54958.753	-35093.847
	2	-489.50000	4840.77654	.920	-10421.953	9442.953

*. The mean difference is significant at the 0.05 level.

Using LSD (Post Hoc test) to check level of significant difference between lending pattern on of public sector banks (1), private sector banks (3) and rural regional banks (2) in the state of Himachal Pradesh. The result shows that there is a significant difference in lending pattern of Public sector banks as compared to private sector bank and Rural Regional Banks, while computed separately as p value is 0.000 (i.e.<0.05) but there is no significant difference between lending by Private sector Bank and RRBs as p value is 0.920 (i.e. > 0.05)

Table 1.4

Average Loan Disbursed Per Account in Himachal Pradesh (Amount in thousands)

	PSB	RRBs	Pvt. SB	Total Commercial Banks' lending
Mar-08	311.5	103.2	285.7	290.9
Mar-09	359.3	109.2	364.7	326.1
Mar-10	475.4	96.4	837.3	422.3
Mar-11	541.1	139.7	1374.5	488.2
Mar-12	561.5	157.7	704.4	501.9
Mar-13	511.5	168.7	758.0	463.7
Mar-14	551.3	184.7	785.9	511.8
Mar-15	502.4	323.4	550.4	492.7
Mar-16	511.5	144.3	712.1	451.9
Mar-17	289.2	139.8	682.2	281.4

Source: SLBC Annual Reports retrieved from (www.hpslbc.com)

Table1.4 depicts that average loan per account has increased tremendously from 290.9 thousand in year 2008 to 511.8 thousand in year 2014 though it has reduced to 281.4 thousand per loan account in year 2017.There was a slight change in loan disbursement per account by rural regional banks as it was 103.2 thousand per account in year 2008 and increased to 139.8 thousand in 2017. Average lending of PSB was also 311.5 thousand in year 2008 which gradually increased to 561.5 thousand in year 2012, though there were small variations afterward and contribution of PSBs condensed to 511.5 till March 2016 and reduced sharply to 289.2 thousand in year 2017. Contribution of private sector banks in terms of loan per account was highest amongst all bank categories as average loan per account of private sector bank was 285.7 thousand in year 2008 and same increased to 1374.5 thousand in year 2011
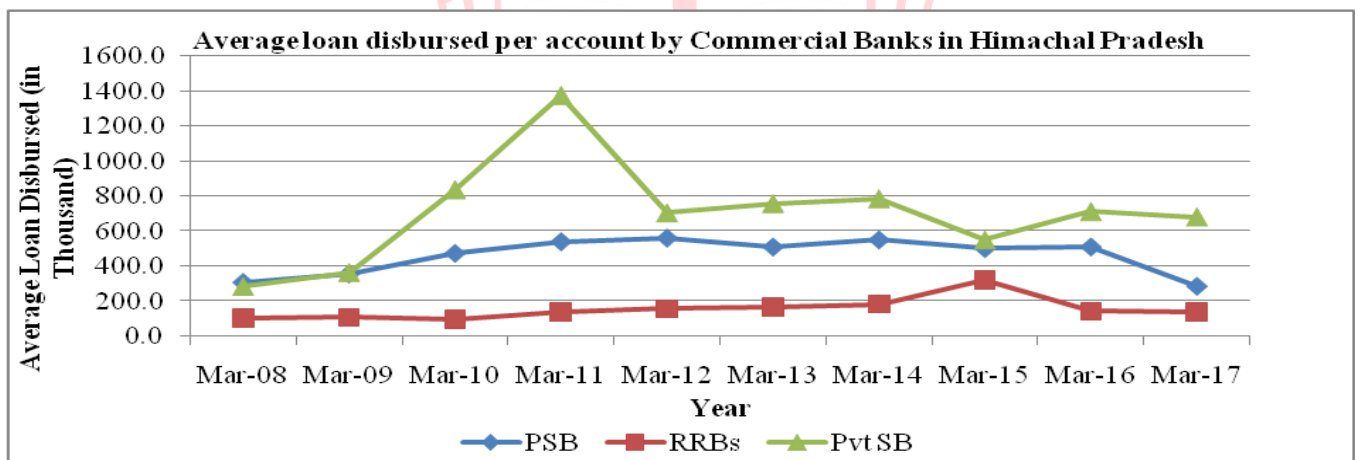

Figure-2 Average loan disbursed per account by Commercial Banks in Himachal Pradesh

Figure 2 reveals the contribution of PSB, Pvt. SB and RRBs in terms of loan disbursed per account till March 2017. Average lending per account of private sector banks is higher than PSB and RRBs in spite of the fact that annual loan disbursement of RRBs and PSB is more than Pvt. SB in almost all years (as shown in Table 1.2) because number of loan applications being served by private banks is comparatively less than that of other two category of banks in Himachal Pradesh.

Table 1.5
Share of SME financing in total bank's lending

		less than 10 percent	10-20 percent	20-30 percent	30-50 percent	more than 50 percent	No response	
Total	Count	1	5	5	5	12	2	30
	% of Total	3.3%	16.7%	16.7%	16.7%	40.0%	6.7%	100.0%

Table 1.6
Change in Share of MSME Lending During Last Five Years

		Firmly Increasing	Increasing	Almost Unchanged	Decreasing	Significantly deceasing	
Total	Count	9	14	5	1	1	30
	% of Total	30.0%	46.7%	16.7%	3.3%	3.3%	100.0%

As indicated in Table 1.5,approx 40 percent banks are imparting more than 50 percent of their total lending toMSMEs while approx 33 percent of banks are providing 20 to 50 percent of their lending to this sector in the selected area. Just 20 percent bankers has less than 20 percent share in MSME lending to their total lending.

As per Table 1.6, majority of banks (77 percent) believe that lending to MSME sector has increased over last five years, out of which 30 percent bank expressed a firm increase in MSME lending during this period. Only 6.6 percent bank representative expressed a fall in MSME lending in their branch.

4. IMPACT OF FACTORS AFFECTING RISK PERCEPTION OF BANKS TOWARDS MSME FINANCING

Factors affecting Risk Perception has been broadly categorized into four factors in name of 'NPA, Non Viable, Costly &Time Consuming and Non Reliable'.

Probability of default, proportionate NPA, chances of willful default has been bundled in first factor 'NPA'. Inabilities to offer collateral, absence of infrastructure &quality staff, and reduced scope of profitability for bankers have been bundled into other factor in name of 'Non Viable'. Cost associated with information collections, Average administrative cost and time involved in documentation of MSME loans has been grouped in Costly and Time Consuming category. Less qualification and inability to propose reliable project makes these loans 'Non Reliable'.

Table 1.7
Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.737	.739	12

As the value of Cronbach's Alpha of 0.737, that indicates that items have relatively high internal consistency (reliability coefficient of .70 or higher is considered "acceptable")

Table 1.8
Z Skewness and Z Kurtosis for test of Normality

		Statistic	Std. Error	Z value
NPA	Mean	2.4333	0.15253	
	Skewness	0.071	0.427	0.166
	Kurtosis	-0.905	0.833	-1.086
Non Viable	Mean	2.8222	0.17268	
	Skewness	0.634	0.427	1.485
	Kurtosis	-0.655	0.833	-0.786
Costly Time Consuming	Mean	3.1222	0.198	
	Skewness	0.176	0.427	0.412
	Kurtosis	-0.833	0.833	-1.000
Non reliable	Mean	2.7667	0.14331	
	Skewness	0.335	0.427	0.785
	Kurtosis	-0.902	0.833	-1.083

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
NPA	.132	30	.194	.960	30	.316
Non Viable	.197	30	.004	.912	30	.017
Costly Time Consuming	.112	30	.200[*]	.961	30	.328
Non reliable	.236	30	.000	.897	30	.007
Risk Perception	.128	30	.200[*]	.946	30	.131

a. Lilliefors Significance Correction

*. This is a lower bound of the true significance.

As z-scores for either skewness or kurtosis are within the range of +1.96, which corresponds with an alpha level 0.05 and A Shapiro Wilk Test for Risk perception of Bankers towards MSME financing (p> 0.05), i.e. 0.131, so we accept the null hypothesis and conclude the distribution of the sample is normal with skewness of 0.071 (SE = 0.427) and a kurtosis of -0.905

(SE=0.833) for NPA, Skewness of 0.634 (SE= 0.427) and Kurtosis of -0.655 for Non Viable, Skewness of 0.176 and Kurtosis of -0.833 for Costly and Time Consuming and Skewness of 0.335 and Kurtosis of -0.902 for Non Reliable. So Parametric Test is applied.

(H0-2): There is no significant difference in the factors affecting Risk Perception of Public Sector Banks and Non PSBs (private sector banks and rural regional banks) financing MSME sector in the state of Himachal Pradesh.

Table 1.9

Factors affecting Risk Perception of Banks

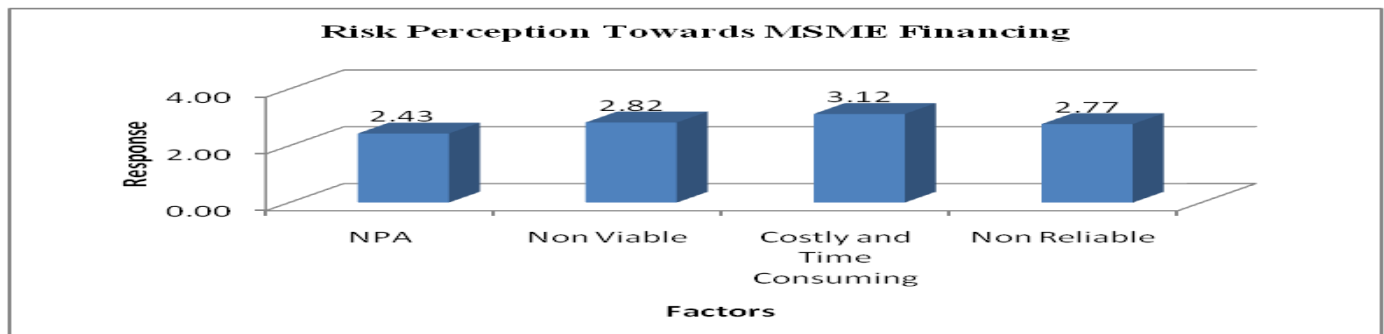| Factors	N	Mean	Std. Deviation
NPA	30	2.4333	.83546
Non Viable	30	2.8222	.94578
Costly and Time Consuming	30	3.1222	1.08449
Non Reliable	30	2.7667	.78492
Risk Perception	**30**	**2.76**	**.618**

Fig: 3 Risk perceptions towards MSME financing

As shown in Figure3, though most of the bankers consider lending to MSMEs as costly and time consuming avenue due to small size of loan and non availability of complete information at one place and considerlarge loans cost convenient due to high average cost associated with MSME application. However they don't consider this sector to be liable for NPA, Non Viable and Non Reliable as mean score for these variables is less than 3 that denotes their state of disagreement.

Table 1.10 Group Statistics and Independent T test for Factors affecting risk perception of banks

Bank		N	Mean	Std. Deviation	Std. Error Mean
NPA	PSB	24	2.3333	.87746	.17911
	Non PSB	6	2.8333	.51640	.21082
Non Viable	PSB	24	2.8472	.97792	.19962
	Non PSB	6	2.7222	.87981	.35918
Cost &Time consuming	PSB	24	3.2083	1.10253	.22505
	Non PSB	6	2.7778	1.02560	.41870
Non Reliable	PSB	24	2.8542	.74424	.15192
	Non PSB	6	2.4167	.91742	.37454

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Risk Perception	Equal variances assumed	0.001	0.97	0.157	28	0.876	0.045	0.287
	Equal variances not assumed			0.161	7.956	0.876	0.045	0.279
NPA	Equal variances assumed	2.88	0.101	-1.328	28	0.195	-0.5	0.3764
	Equal variances not assumed			-1.807	13.32	0.093	-0.5	0.27663
NonViable	Equal variances assumed	0.204	0.655	0.285	28	0.778	0.125	0.4387
	Equal variances not assumed			0.304	8.392	0.768	0.125	0.41092

Costly and Time Consuming	Equal variances assumed	0.498	0.486	0.866	28	0.394	0.43056	0.49715
	Equal variances not assumed			0.906	8.158	0.391	0.43056	0.47535
Non Reliable	Equal variances assumed	0.272	0.606	1.232	28	0.228	0.4375	0.35511
	Equal variances not assumed			1.082	6.741	0.316	0.4375	0.40417

An independent-samples t-test was conducted to compare Risk Perception of Public Sector bank and Non Public sector Banks (Pvt. and RRB).

As p>0.05 i.e. 0.97, towards Risk perception among PSB and Non PSB, which indicates that there is no significant difference in the scores for risk perception of Public Sector banks and Non Public Sector Bankst (28)=0.157, p = 0.876. The result suggests that category wise there is no difference in risk perception of PSB and Non PSBs towards MSME lending.

For NPA, There is no significant difference in the scores given by PSB (M=2.3333, SD= 0.877) and Non PSBs (M= 2.83, SD= 0.516), t (28) = -1.328, p=0.195. The result depicts that there is no significant difference in Perception of NPA among PSB and Non PSB towards. Both categories of Banks believe that there are low chances of NPA in MSME Funding. Comparing risk perception in form of Non Viable, Costly and Time consuming and Non Reliable, there is again no significant difference in the scores of both categories of banks

So the null hypothesis is accepted here andit simply indicate that there is no significant difference in the total risk perception of public sector banks and Non Public Sector Banks

V.   FINDINGS

The Study basically conclude that though there is no difference in risk perception of Public Sector Bank and Non Public Sector Bank however there is significant difference in lending pattern of both category of banks in the selected districts of Himachal Pradesh. The banks consider MSME financing as costly and time consuming (Mean 3.12)still they consider MSME sector comparatively reliable (M=2.77), Commercially Viable (2.82) and Safe in terms of NPA (2.43) that has resulted in increased proportionate lending (Responded by 77 percent bankers) to this sector over last five years. Moreover about 40 percent of bankers have sanctioned more than 50 percent of their branch lending to MSMEs indicating improved attitude of bankers towards MSME financing.

VI.   SUGGESTIONS

No doubts, commercial banks have been working actively for reducing credit gap in MSME financing by providing adequate and speedy finance thus helping them to utilize their potential and upgrade them. E-Governance practices that make innovative use of information and communication technology (ICT) can be effectively used to attain efficiency and transparency in working. Use of ICT not only allows MSMEs to easy access to information and resources but also facilitates the banks/FIs to disburse loans quickly. Strong infrastructure, awareness regarding use of ICT and legal and regulatory compliance needs to be promoted. Bank/FIs should encourage collateral free loans for micro and small concerns as per CGTMSE. Credit rating should be made mandatory for Micro and Small enterprises so as to reduce bankers' time and cost in processing their loans. Companies maintaining good credit rating should be rewarded with subsidized loans. Cost of financing that has been a major problem encountered by MSMEs can be softened by waiving loan processing charges. The banks charge significantly higher rates of interest from first generation entrepreneurs, new loanees thus increasing their chances of becoming sick which should be taken care of by the Governments to promote entrepreneurship. Most of the MSMEs due to shortage of time, do not approach banks for applying loans and prefer credit assistance for short term from unorganized sector likefriends, relatives and private money lenders even at higher rate of interest which not only result in reduced profitability in future but also makes the enterprise vulnerable to financial crunch. So Banks/ FIs should create awareness about the financial products relevant to MSME sector and provide them access to finance through well developed and wide spread network at the door step of MSMEs. Moreover they should make sufficient provision for imparting long term loan to cater their diversified need. Role of banks/FIs should not only be confined to meeting financial needs of the clients but they should also act as mentors for MSME sector, whenever required.

VII.   CONCLUSION

The research brings us to the conclusion that the willingness of the banks/FIs to support MSMEs have increased over the last few years resulting in increased financial assistance to this sector. It is evidently clear that the MSME promoters face the problem of providing adequate collateral security to the bank which acts as a big hurdle in their getting financial assistance. However their problem can be bridged using credit guarantee scheme of Govt. of India who acts as a guarantor for the loan. In Himachal Pradesh now, this scheme is increasingly becoming popular with guarantee cover to the tune of □1440 billion provided by government. The study further

shows that even though financing MSME is 'Time consuming and Costly' still banks consider them commercially viable and less risky. The bankers can do better by providing adequate information to borrowers in MSME sector and guide them from conception of the project to expansion and diversification stage. E-Governance can play very important role in this regard and online sanction of loan with fast processing and competitive rates may further improve the top lines and bottom lines of the MSME sector. The banks should understand all the credit need of the clients and provide themfinance , whenever required, in form of term loan, working capital loan, lease financing, letter of credit, CC limit etc. The MSME on its behalf should adopt better practices, system procedures and compliance to be rich on the expectations of the banks.

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