

A Comparative Analysis of Priority Sector Lending to Urban & Rural MSMEs By State Bank of India

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ABSTRACT - The praxis of development discourse demonstrates that rural development is crucial to overall economic and social growth. Rural industries and rural enterprises can contribute to economic development: sustained growth in this vital sector could be a paradigm changer for regions and countries. However it is also observed that rural enterprises have not been given the boost that would benefit such a promising sector. Rural MSMEs like their urban counterparts also suffer credit crunch, despite India having a notable history of policies addressing the needs of MSMEs. The paper attempts to find the outreach of rural credit delivery system by comparing bank credit between rural MSMEs and urban MSMEs. The study concluded that urban MSMEs are preferred over MSMEs of rural areas by bank for priority sector lending.

KEY WORDS: Rural development, Bank Credit, MSMEs, Rural and Urban

I. INTRODUCTION

The praxis of development discourse demonstrates that rural development is crucial to overall economic and social growth (Korten 1980; Wiggins & Proctor, 2002; Ashley & Maxwell, 2002; Marsden, et.al, 2005). Extant literature also states that rural industries and rural enterprises can contribute to economic development and sustained growth in this vital sector could be a paradigm changer for regions and countries (Bekele & Muchie, 2009; Juliana, 2013; Chambers, 2013; Ahamed & Pandey, 2015). However it is also observed that rural enterprises have not been given the boost that would benefit such a promising sector. Rural MSMEs like their urban counterparts also suffer credit crunch, despite India having a notable history of policies addressing the needs of MSMEs (Rao, Das & Singh, 2006; Kulkarni, 2007; Das, 2008; Ahmed, 2009; Thampy, 2010; Anonymous, 2011; Salwan; 2012). The development of rural credit delivery system in the country from monopoly of cooperatives to the induction of rural banks and establishment of regional rural banks, no doubt had improved the outreach and ensured access to credit in rural areas (Puhazhendhi & Jayaraman, 1999). But the financial institutions are reluctant to lend to rural entrepreneurs as the lending rules to MSMEs increased the Non Performing Assets (NPAs) and rural entrepreneurs did not adopt the best management practices and also there was no strategic planning (Suresh, 2000; Salwan, 2012). Further, the problem with the current lending guidelines is its multiple and complicated categorization incorporating several objectives, viz, growth, employment and equity. Thus, in reality there exists regional imbalance amongst bank credit to rural and urban entrepreneurs.

As against this backdrop, it is imperative to examine whether priority sector lending to MSMEs has led to rural development in Assam. Hence, this paper intends to compare lending practice of select commercial bank to MSMEs in rural areas with that of MSMEs in urban areas with reference to Jorhat district of Assam.

OBJECTIVE

The aim of the paper is to compare bank lending to MSMEs in the rural areas with that of MSMEs in the urban areas in Jorhat district of Assam.

HYPOTHESIS

H₀: There is no significant difference between bank credit to rural MSMEs and urban MSMEs.

II. METHODOLOGY

For the purpose of the study, the loan applications RASMECCC, SBI Jorhat for the period 2016-17 & 2017-18 under priority sector lending was scrutinized. A total of 361 applications were submitted for grant of loan under priority sector lending. These related to manufacturing, trade and service MSME firms. Upon scrutiny it was found that 261 applicants were granted loans whereas 100 applicants were refused for bank credit. Data for these 261 accepted loan applicants (beneficiaries) were now systematically arranged and organized on the basis of twin criteria: (a) Urban-Rural Dichotomy (b) Quarterly period. Definition of Urban area given in Census of India, 2011 is used for urban-rural classification. For quarterly period, the financial year is taken into account. Hypothesis was thereafter tested using chi-square test between categorical variables to bring out

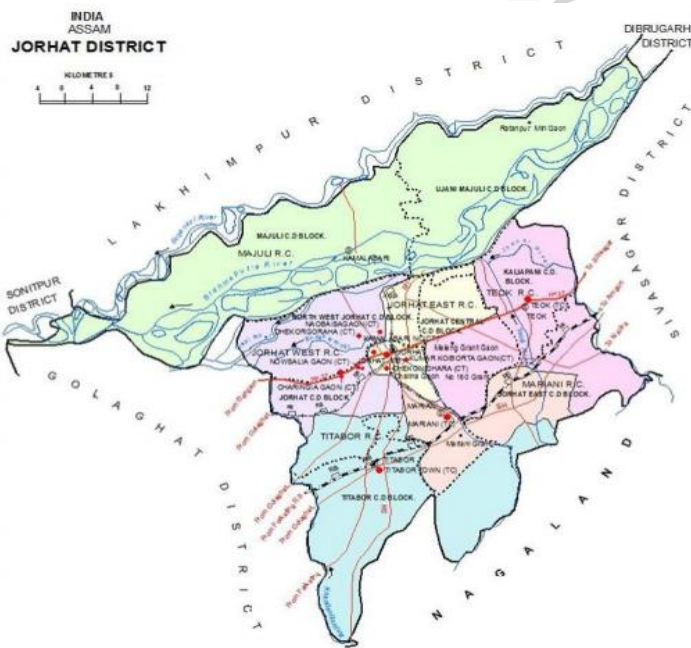
the difference between credit extended to rural and urban MSMEs.

Brief Profile of State Bank of India, RASMECCC

State Bank of India inaugurated RASMECCC as a separate loan processing unit all over the 21 cities of north east. Retail Assets and Small and Medium Enterprises City Credit Centre (RASMECCC) are a specialized loan processing, sanctioning and maintenance hub, which deals with the Personal and SME loans. The centralization of loan processing, sanctioning and maintenance enables the bank to give better customer service, besides the convenience of having multiple functions under one roof. In Jorhat SBI established RASMECCC in 2008 which is located at Katakipukhuri, Ajanta Cinema Hall, Tarajan, Jorhat.

Profile of the study district

The Jorhat District is located between the Brahmaputra on the North and Nagaland on the South at 26°46' North latitude and 96°16' longitude in the central part of Brahmaputra. In Jorhat district there are 6 Revenue Circles and 8 Community Development (CD) Blocks which comprises 848 villages including 85 uninhabited villages.



SOURCE: District Census Handbook, Census of India, 2011

Important Statistics related to Jorhat district is given in Table 1.1.

Table 1.1 Important Statistics of the study district

Category	Sub-category	Value
Number of Villages	Total	848
	Inhabited	763
	Uninhabited	85

Number of Towns	Statutory Census	4
	Total	11
Population	Total	1,092,256
	Males	556,805
	Females	535,451
Rural	Total	871,722
	Males	442,968
	Females	428,754
Urban	Total	220,534
	Males	113,837
	Females	106,697
Percentage of Urban population		20.19
Area (in sq km)		2851.00

SOURCE: District Census Handbook, Census of India, 2011

III. DISCUSSION, FINDINGS & ANALYSIS

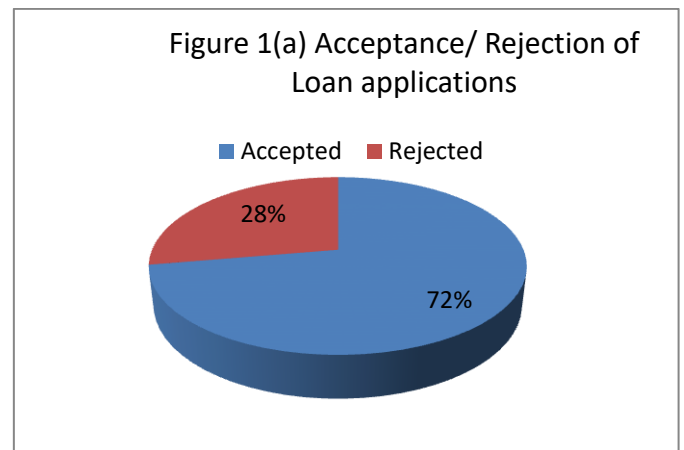
For the period 2016 to 2018, a total of 361 applications were submitted for grant of loan under priority sector lending, the break-up of which into manufacturing, Trade and Service is presented in table 1.2.

Table 1.2 Break-up of sample loan applicants into type of business for 2016 to 2018

Type of Business	Frequency	Percent
Manufacturing	77	21.3
Trade	212	58.7
Service	72	19.9
Total	361	100

SOURCE: From Field Survey

Out of the total applications, 72% were accepted for granting loans and the rest 28% were rejected, as shown in Figure 1 (a).



SOURCE: From Field Survey

In the context of the objective of the study, the applicants accepted for lending by SBI has been organized on the basis of twin criteria: (a) Urban-Rural Dichotomy (b) Quarterly period. The purpose of the model is to determine if there exists any discrepancy in credit to MSMEs between urban and rural areas within Jorhat district of Assam. The result of quarterly distribution of bank credit between urban & rural MSMEs is given in Table 1.3.

Table 1.3 Quarterly distribution of Bank credit: Urban v/s Rural MSMEs

		Area (Urban/Rural)		Total
		Urban	Rural	
First Quarter	Count	27	14	41
	% within Quarter	65.9%	34.1%	100.0%
Second Quarter	Count	45	29	74
	% within Quarter	60.8%	39.2%	100.0%
Third Quarter	Count	63	75	138
	% within Quarter	45.7%	54.3%	100.0%
Fourth Quarter	Count	63	45	108
	% within Quarter	58.3%	41.7%	100.0%
Total	Count	198	163	361
	% within Quarter	54.8%	45.2%	100.0%

SOURCE: From field survey

Interpretation:

Table 1.3 shows the quarterly distribution of bank credit classified under urban and rural area within Jorhat district. It can be seen that in the first quarter total loans sanctioned to MSMEs were 41 out of which 65.9% went to MSMEs situated in urban areas of Jorhat district and the rest 34.1% were sanctioned to rural MSMEs. In the 2nd quarter the number of sanctioned loans increased to 74 but it was not evenly distributed within the urban and rural sector as 60.8% and 39.2% were the share of urban and rural MSMEs respectively. However, the scenario somehow changed in the 3rd quarter in which the bank advanced highest, i.e. 138. Also, it was only in the 3rd quarter where rural MSMEs were preferred more than urban MSMEs. 54.3% share went to rural areas which was 8.6% more than 45.7% which was the share of urban area in the 3rd quarter. But again in the last quarter the share of rural MSMEs came down. Out of total 108 loans 58.3% and 41.7% were the share of urban and rural MSMEs respectively. Thus we may interpret that at the beginning of the financial year, rural MSMEs were least preferred by the bank, howsoever, the bank brought down the difference to 10% in its approach to lend evenly to rural and urban MSMEs towards the end of the year.

Now let us examine the difference in the quantum of bank credit granted to rural and urban MSMEs. The amount of loans classified amongst urban and rural MSMEs are given in Table 1.4.

Table 1.4 Quantum of Bank credit: Urban v/s Rural

			Area (Urban/Rural)		Total
			Urban	Rural	
Up to Rs 100000	Count	1	9	10	
	% within Loan Sanctioned	10.0%	90.0%	100.0%	
Rs 100001-1000000	Count	99	70	169	
	% within Loan Sanctioned	58.6%	41.4%	100.0%	
Loan Sanctioned Rs 1000001-2000000	Count	25	17	42	
	% within Loan Sanctioned	59.5%	40.5%	100.0%	
Rs 2000001-3000000	Count	8	3	11	
	% within Loan Sanctioned	72.7%	27.3%	100.0%	
Rs 3000001 & above	Count	26	3	29	
	% within Loan Sanctioned	89.7%	10.3%	100.0%	
Total	Count	159	102	261	
	% within Loan Sanctioned	60.9%	39.1%	100.0%	

SOURCE: From field survey

Interpretation:

Table 1.4 shows the amount of bank lending to MSMEs in five categories. Loans amounting between Rs 1 lakh to 10 lakhs are sanctioned highest both in cases of urban and rural MSMEs. It is 99 and 70 MSMEs in urban and rural areas respectively. Only 1 urban MSME has been granted loan amounting to below Rs 1 lakh whereas only 6 rural MSMEs were granted loans amounting above Rs 20 lakhs in which 3 received amount above Rs 30 lakhs. 9 rural MSMEs received loan below Rs 1 lakh whereas 26 urban MSMEs received loan above Rs 30 lakhs. Thus we may interpret that when it comes to amount of loan, urban MSMEs are preferred most for loans above Rs 10 lakhs whereas rural MSMEs are receiving maximum loans below Rs 10 lakhs.

Test of hypothesis:

The Null hypothesis stated in the study is that there is no significant difference between bank credit to rural MSMEs and urban MSMEs. To test the null hypothesis, chi-square test method is performed using software SPSS, Version 20. The result of the test is given in Table 5.3

Table 1.5 Chi-square test

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	22.016	4	0.002

SOURCE: SPSS output table, Version 20

The value of chi-square is 22.016 with 4 degree of freedom at 95% level of confidence. The p value is 0.002 which is less than 0.05; hence the result of the test does not support null hypothesis leading us to reject null hypothesis. Thus there is significant difference in bank credit by SBI between rural MSMEs and urban MSMEs in Jorhat district of Assam.

IV. CONCLUSION

The comparative study conducted to find the outreach of priority sector lending for the development of rural areas reveals existence of discrepancy in bank lending between MSMEs in rural areas as compared with MSMEs in urban areas. Unless and until this discrepancy is removed and rural MSMEs gets preference at par urban MSMEs for lending purpose by banks, growth & development of rural MSMEs would not be possible. To accelerate the process of rural development, the contribution of MSMEs is to be sustained and nurtured in overt and explicit manner. Thus, the study provides further scope for research on how to bring rural MSMEs in the mainstream of priority sector lending.

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