An Evaluative Study Over The Structural Framework Of Small Business Financing In Nagpur City: Special Reference To Nationalized Banks Vs. Private Banks

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Abstract

The nation's economy now relies heavily on its MSMEs. It has had a significant impact on increasing exports, creating new jobs, and boosting GDP. Due to liberalisation, privatisation, and globalisation, small and medium-sized enterprises (SMEs) are now engaged in fierce competition. In addition, in today's cutthroat business environment, firms can't afford to be uncompetitive. Their competitiveness is now desired for both efficient resource use and the long-term security of millions of people's standard of living. Small-scale enterprises play a vital part in the economy, but they are unable to grow and contribute as much due to a lack of capital. This article sets out to investigate the primary considerations small businesses make when deciding which financial institutions to approach for a loan. Primary sources were used to acquire data by developing a thorough questionnaire. Data was put through a Factor Analysis process to ensure accuracy. Commercial bank loan applicants from small businesses ranked the following factors as most important to them: basic loan considerations, guidance regarding terms and conditions of loan, easy processing of loan, nature of business, relationship banking, loan utilisation efficiency, competence of firm, banking initiatives, and procuring the loan at the doorstep.

Keywords: Nationalised bank, Private bank, Small Businesses, Framework.

Introduction

Whether a company goes to a nationalised bank (one owned or controlled by the government) or a private bank (a commercial bank owned by a private entity), the underlying structure of the loan will be different. In this article, I'll explain the key distinctions between the two in terms of funding for small businesses:

National Banks: Nationalised banks are often owned or controlled by the government. They are not driven just by financial gain, but also by a concern for the greater good of society and the economy. Their goals and policies are determined by the state. Tolerance for Risk: Since the government may back nationalised banks in the event of loan defaults, these institutions are willing to take on more danger. Even if a small firm has a higher risk profile, this may make it simpler for them to get financing. Loan rates from nationalised banks may be more affordable than those offered by private lenders. This is often the end outcome of government initiatives meant to foster economic growth. When it comes to collateral, however, a nationalised bank may be more lenient. This is especially helpful for small enterprises with little assets since they may take a larger variety of collateral, including government plans or guarantees.

The lending policies of nationalised banks may be influenced by the government's rules and control. The social goals of these financial institutions may include fostering broader access to banking services and providing backing to underserved areas of the economy. Nationalised banks may make it simpler for small enterprises in certain industries to get finance.

Private Banks: Control and Ownership: Private banks are funded by individual investors and run for profit. Profit and risk management are typical motivators in their lending choices. Tolerance for Risk: Private Banks are Typically Less Risk Taking. They may be pickier about who they lend money to and how, placing more emphasis on a solid credit history and collateral. The necessity to earn profits for shareholders means that interest rates at private banks may be higher than those at nationalised institutions. In terms of collateral, private banks often have stricter requirements. A personal guarantee, collateral, or proof of a stable income stream might be required. Private banks are likewise regulated, however the government has less say over their lending practises. Because of their incentive to maximise profits, private banks may not share the same societal goals as their nationalised counterparts.

Small company owners should carefully consider the pros and cons of both nationalised and private banks before deciding which one is best suited to their needs. Nationalised banks may be more flexible to small enterprises with an emphasis on social or economic growth, whereas private banks may appeal to individuals whose primary concern is maximising profits. To make a good choice, company owners should weigh their finance demands against the many choices they have.

Literature Review

Ekpenyong and Nyong (1992) discovered that small businesses relied heavily on readily available and easily accessible loans. Most small-scale industries in Nigeria, the study found, had been harassed by the government and formal financial institutions, so they turned to informal financial institutions like money lenders, co-operative societies, friends, and family after abandoning personal savings and banks. Abor and Biekpe (2016) identified the following as major barriers for small scale firms when applying for funds from banks: (1) financial institutions' lack of knowledge regarding the nature of the clients' business; (2) firms' lack of knowledge regarding lending criterion; (3) delayed processing of applicants' proposals; and (4) the lack of availability of financial performance track record. According to a survey conducted by Patankar (2018), just 17% of small-scale industrial units have access to bank funding, while the rest must rely on internal funds or informal financing channels to meet their growth and modernization needs. Using the varimax normalisation approach, Quader and Abdullah (2019) sought to identify the most pressing issues confronting small and medium-sized enterprises (SMEs) in Bangladesh. High lending rates, government regulatory limits, a limited local market, and the need to provide collateral were found to be the most significant barriers to credit availability for small-scale businesses. lending availability for small-scale enterprises in Chattisgarh was analysed by Mishra and Brahme (2021), who looked at the impact of financial policies from both informal and institutional lending institutions. Based on the findings, it is clear that small-scale enterprises are experiencing credit shortages due to the rationing practises of both unofficial and official financial institutions.

Both Bbenkele (2017) and Messah and Wangai (2021) examined the determinants of micro, small, and medium-sized enterprise (MSE) involvement in the formal loan markets. According to research by Osotimehin et al. (2022), small and medium-sized businesses face fundamental challenges, such as a lack of cash and the high cost of acquiring operating equipment. Furthermore, Chandraiah and Vani (2014) found that small-scale enterprises faced limitations such as the inability to get timely and sufficient credit, the high cost of financing, the need for collateral security, the scarcity of equity capital, the absence of necessary infrastructural facilities, and so on. The views of small business owners on bank loan services were investigated by Selvaraj and Kumar (2015). The findings showed that entrepreneurs' attitudes towards bank lending facilities were mostly determined by the bank's willingness to accept loan applications based on DIC recommendations, the availability of sufficient working capital loans, and a fair interest rate.

Objectives of the study

1. The survey aims to learn more about the aspects small businesses consider most significant when deciding which banks to approach for loans.
2. To learn where small businesses would rather get their future funding and why.
3. To provide strategies for addressing the challenges of obtaining funding for small businesses.

Research Methodology

The research relied on original sources. The questionnaire used for data collection was created after researching relevant literature and consulting with industry professionals. There were two sections to the questionnaire. The first deals with the demographic profile of SSIs, and the second with the criteria that SSIs use to choose which banks to approach for loans. Information was gathered from 250 small businesses in Nagpur, Maharashtra, representing five different industries: machinery parts, hand tools, leather, textiles, and food products.

Data Analysis & Interpretation

Small businesses have strong preferences when it comes to future capital expenditures.

The second goal required SSIs to rank the sources of capital in order of priority in order to analyse the preference of small scale enterprises about sources of capital, they would want to employ in the future to fill their financial demand. The most ideal kind of financing would come from a source that cost the least on average. Table 1 displays the entrepreneurs' responses in order of preference for leveraging the different sources to meet their future financial needs.

Table 1: Favourite Funding Options

Preference	Mean Value	Rank
Own Money	1.624	1
Obtaining a Bank Loan	2.758	2
Help from Relatives and Acquaintances	3.645	3
Loan from Non-Bank Financial Companies	3.987	4
Lease Financing	5.214	5
Loan from Domestic Lenders	5.687	6
IPO	7.451	7
VC	7.986	8

According to the data, the vast majority (1.624) would rather use personal savings to meet their working and fixed capital needs. 'Contribution from Friends and Relatives' (3.645) came in at number three, followed by 'Bank Loan' (2.758), 'Loan from NBFCs' (3.987), 'Lease Financing' (5.214), and 'Indigenous Lenders' (5.687). Due to its infrequency as a source of financing, the studied units gave little weight to venture capital and the issuance of shares. Most of the businesses questioned needed clarification on the meaning and value of venture capital and the issuance of shares. Since the questioned units had little experience with these resources, they ranked them seventh and eighth. Small businesses are less likely to rely on less common forms of funding, such as venture capital, the issuance of shares, or lease financing. If retained revenues aren't enough, small businesses prefer bank loans and contributions from friends and family, as shown by the data.

Findings of the study

The present study's primary purpose was to investigate what variables small businesses considered most significant when deciding which banks to approach for financing. Nine criteria were shown to have a substantial impact on small-scale enterprises' ability to get bank loans. Small businesses have identified a number of factors as crucial to their loan decisions, including: basic loan considerations; advice about terms and conditions of loan; easy processing of loan; the nature of business; relationship banking; the efficiency with which loans are used; the expertise of the firm; banking initiatives; and the ability to obtain the loan at the firm's front door. According to the data, small businesses care most about the interest rate, collateral security, loan purpose, and time it takes to approve the loan. In order to meet their working and fixed capital needs, small size businesses need a specified quantity of money in a timely manner. Loan delays caused by extensive paperwork and complicated processes are a common cause of production and sales losses for small businesses. As a result, most SSIs relied on savings and contributions from friends and family rather than taking out loans since they lacked the information to understand the loan application process and were unable to afford the exorbitant interest rates and required collateral.

In addition, small business owners prefer to borrow money from banks whose staff they already know. The loan to the business owners was successfully executed thanks to the workers' direction, advice, and assistance. Small businesses also placed a premium on flexible repayment periods and low loan processing fees. According to the results of the research, banks assist small-scale enterprises sustain cash flow, purchase new inventory or equipment, recruit new staff, and develop thanks to formal lending, especially in the form of term loans. Banks are willing to provide credit to small-scale firms because they see them as strategically significant, but only if the businesses satisfy the standard criteria of collateral security, interest rate, procedure, and loan payback by the due date. In addition, the Reserve Bank of India has instructed banks to minimise red tape in order to facilitate small business lending.

The second aim of this research was to determine which types of capital small-scale enterprises would want to employ in the future to meet their financial needs. Small business owners were polled on the relative importance of various funding sources. Based on the findings, self-raised capital is clearly the most preferred source of funding in the event that funds are required for company growth and diversification. In addition, small-scale enterprises identify commercial bank loans as the second-most-preferred source of funding. Because of the commercial banks' willingness to lend money to sole proprietorships and partnerships, these financial institutions are often seen as a go-to by small businesses.

Based on these results, it is recommended that banks offer consultancy services and professional guidance when lending money to small units, both in the form of long-term and short-term loans. This would greatly benefit small-scale businesses by educating them on the necessary steps and types of paperwork. To encourage small businesses to seek banks for loans, financial institutions should spread information about the types of collateral security that would be accepted. Therefore, consistent communication between commercial banks and SSI customers is essential to fostering trust.

More SSI offices need to be set up in the various municipalities. The infrastructure, technology, and knowledge needed to sustain newly established branches must be made available. Further, it is recommended that small-scale company owners prioritise formal functioning with alternative business models in order to increase finance availability and sector development. It is also important to look at other potential funding sources that might help SSIs lessen their reliance on bank financing.

Conclusion

The study's overarching goal was to learn which types of financing small businesses want to employ in the future and what elements they consider most crucial when deciding whether or not to take out a loan from a bank. Nine variables were identified as being critical in the eyes of small businesses when applying for loans. In order to meet their working and fixed capital needs, small size businesses need a specified quantity of money in a timely manner. Small businesses can lose out on production and sales because of lengthy loan approval processes caused by excessive paperwork and bureaucracy. For all these reasons, personal savings were the favoured method of financing for small businesses. Therefore, it is important to enhance communication between banks and borrowers so that relationship lending is prioritised alongside transaction-based lending.

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