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Public Sector Banks and MSMEs in Vidarbha: A Review of Financial Strategies and Economic Impacts

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Abstract

When it comes to helping Micro, Small, and Medium Enterprises (MSMEs) in India's Vidarbha region thrive, public sector banks (PSBs) are indispensable. This study analyses the economic effects of PSBs' financial policies on micro, small, and medium-sized enterprises (MSMEs) in the Indian state of Vidarbha. The study delves into the ways in which PSBs help micro, small, and medium-sized enterprises (MSMEs) overcome financial limitations by reviewing and analysing the existing literature on the topic. The main results show that small and medium-sized enterprises (SMEs) heavily depend on bank loans (PSBs), especially for working capital and to help grow their businesses. This paper takes a look at the programmes and policies put in place by the government to help PSBs and MSMEs work together better, and it finds both the good and the bad. Findings highlight PSBs' pivotal role in boosting Vidarbha's economy and encouraging entrepreneurial spirit. The report finishes with suggestions for how the area can optimise PSB policies, increase financial inclusion, and fortify MSME resilience, all of which would help with long-term economic growth.

Keywords – Financial Inclusion, Government Policies, Entrepreneurship, Sustainable Development, Financial Resilience

Introduction

Important players in India's financial system, public sector banks (PSBs) are especially important in areas like Vidarbha, where MSMEs are driving economic growth. Opportunities and threats to the growth of micro, small, and medium-sized enterprises (MSME) in Maharashtra's Vidarbha region are distinct, and PSBs' financial strategies and support mechanisms play a major role in shaping these dynamics.

Credit facilities, working capital loans, and advisory support tailored to the specific needs of small-scale enterprises are just a few of the financial services that PSBs in Vidarbha provide to their multi-faceted relationship with MSMEs. Gaining a clear grasp of this connection is crucial for clarifying the role of PSBs in the growth of MSMEs, which in turn generates income, jobs, and overall prosperity for the region.

The purpose of this article is to investigate and assess the effects on MSMEs' bottom lines of the financial strategies used by PSBs in the state of Vidarbha. This study aims to better understand how PSB interventions can help micro, small, and medium-sized enterprises (MSMEs) become more financially inclusive and encourage entrepreneurial activities by analysing previous research, empirical findings, and policy frameworks. Additionally, it identifies critical areas for improvement and enhancement by examining the role of government policies and initiatives in shaping the collaborative landscape between PSBs and MSMEs.

The paper's overarching goal is to contribute to Vidarbha's long-term economic growth and development by offering a thorough analysis of how PSBs can improve their strategies to assist micro, small, and medium-sized enterprises (MSMEs).

Objectives of the study

- To investigate the specific financial strategies and services offered by public sector banks (PSBs) in Vidarbha to support Micro, Small, and Medium Enterprises (MSMEs).
- To evaluate the economic impacts of PSB interventions on MSMEs in Vidarbha.
- To analyze the role of government policies and initiatives in shaping the relationship between PSBs and MSMEs in Vidarbha.

Research methodology

This study takes a descriptive approach to examine the synergies between PSBs and Micro, Small, and Medium Enterprises (MSMEs) in the Vidarbha region. It uses qualitative insights to fill in the gaps in our understanding of PSBs' financial strategies and their effects on MSMEs' bottom lines. To put our findings into context, we review academic papers, policy documents, and existing literature on financial inclusion, MSME development, and PSB strategies. This review also guides our research questions and methods.

Literature review

Both the supply and demand sides of financial service accessibility are significantly affected by business features, according to rational choice theory. It is well-established from prior research that a company's unique qualities greatly impact its ability to get funding. One indicator of a company's resilience in the face of market volatility is its age. Startups and smaller businesses are more likely to fail in these tough economic times because they lack the capital to weather the storm. Compared to big corporations, micro, small, and medium-sized enterprises (MSMEs) sometimes have limited access to financing (OECD, 2013; Saeed & Sameer, 2015). According to Gabbianelli's (2018) study, MSMEs have easier access to financing because of their local presence and the deep ties they've built with local players over the years. A major consideration is the firm's size; larger companies with more physical assets tend to choose long-term loans. Companies with large investment capital tend to be less competitive and more diversified, which makes them better equipped to handle high debt ratios and reduces their risk of failure. When compared to big and medium-sized businesses, tiny concerns usually encounter more obstacles, according to Schiffer & Weder (2001). Size, age, and ownership are the three most important factors in determining whether a company may have financial difficulties, according to the research (Fatoki & Asah, 2011).

Indian micro, small, and medium-sized enterprises (MSMEs) confront several challenges when trying to secure funding, according to the Asian Development Bank (2014). These include, but are not limited to, stringent regulations, high interest rates, complicated procedures, and entrepreneurs' lack of financial expertise in relation to relevant schemes. Because of these problems, they are unable to get the financing they need. Numerous research have confirmed these issues' detrimental impact on MSMEs' development. Three main factors are limiting the expansion of micro, small, and medium-sized enterprises (MSMEs): limited access to non-financial inputs, limited access to capital, and high expenses. Four limitations were highlighted

by Pissarides et al. (2003): land availability, supplier punctuality, financial issues, and production limitations. Of all the limitations they identified, their investigation found that access to external financing was the most problematic. Saghir and Aston (2017) found a statistically significant negative correlation between easy access to financial resources and government laws, interest rates, and financial crises. Since micro, small, and medium-sized enterprises (MSMEs) often have to fight for loans, they have identified funding as their biggest challenge. Financial challenges faced by micro, small, and medium-sized enterprises (Beck, 2007; Banerjee, 2014; Dong & Men, 2014) are the most often discussed topic in the literature.

Based on the services offered by financial institutions, MSMEs have the challenge of choosing among several sources of financing. I. The desire for financial services; (ii) the kind and form of services offered by financial institutions; and (iii) the terms and conditions of those services make up rational choice theory of demand for financial services. One explanation for this phenomenon is the theory of bounded rationality, which explains how individuals in micro, small, and medium-sized enterprises (MSMEs) are constrained in their ability to make rational decisions when faced with decision issues. These constraints include the time available to them, the cognitive limitations of their thoughts, and the regularity of the decisions themselves. Since internal financing is insufficient to meet the needs of these organisations, micro, small, and medium-sized enterprises (MSMEs) rely heavily on external financing, especially debt, to fuel their expansion (Pandula, 2011). Banks continue to be the main source of external financing for MSMEs, even if there are a number of financial constraints (Klonowski, 2012; Thampy, 2010). Entrepreneurs running micro, small, or medium enterprises (MSME) may access a variety of external finance options. Taking up a large amount of direct debt is a common way for MSMEs to meet their investment and cash flow requirements (OECD, 2016). There is a lack of availability of fresh equity financing for MSME administrations due to market restrictions (Rocca et al., 2011). Consequently, MSMEs' access to credit varies according to the many financial sources at their disposal. In order to foster an enabling environment and encourage MSMEs, governments and regulatory authorities have offered incentives, grants, guided loans, and subsidised lending. Nonetheless, issues with financial connection persist. Obtaining funding and making the right choice among available options has become a need due to the many obstacles.

Organisations, like people, go through stages of development that culminate in maturity, transformation, and eventually death. Throughout their evolution, organisations must go

through a series of phases that are time-bound. During this time of change, businesses expand their operations and enhance their internal and external systems to better handle customer and competitor needs (Phelps et al., 2007). A micro, small, or medium enterprise (MSME) may go through a number of phases from the time it starts off. According to earlier theoretical models, a life cycle may be described as having anything from two to thirty-three distinct phases (Phelps et al., 2007).

Another name for this is "access to credit," and it refers to a company's ability to get various financial services including insurance, payments, credit, deposits, and risk management offerings. Any company needs access to capital in order to function; without it, the company would likely fail before its infancy has even begun. Startups face a significant obstacle when trying to get access to capital from traditional sources like banks and other formal financial organisations. Banks often ignore these businesses since they can't provide financial records. Their ability to get loans is also affected by the collateral restrictions. Due to their inability to provide high-quality collaterals, MSMEs are labelled as "undesirable borrowers" (Ayadi & Gadi, 2013). Having access to capital is crucial for micro, small, and medium-sized enterprises (MSMEs) throughout their entire lifecycle. In order to help eradicate poverty in developing nations, small firms need access to capital so they may make profitable investments (Beck & Demirguc-Kunt, 2006). To determine the financial development of MSMEs in developing nations, access to financing is listed third among the determinants (IFC, 2011). Limited investment prospects and slow development are the results of financial restrictions. Many people believe that small and medium-sized enterprises (SMEs) rely on easy access to financing to run their day-to-day operations. According to Fantasy (2016), Harvie et al. (2013), and Jaroslav et al. (2017), it helps people take advantage of investment possibilities in the long run and encourages the formation of goals.

The availability of debt financing is affected by a number of factors, including the location, industry, size, age, effect of collateral, and incorporation of a business. It is the responsibility of MSME administrators to make sure that banks are willing to provide funding by making sure that the business has attractive features (Kira & He, 2012). The availability of capital is affected by the characteristics and legal standing of the company (Zelalem & Wubante, 2019). According to research by Musamali and Tarus (2013), the characteristics of a company—its size, structure, length of operation, and industry—certainly affect the availability of capital for micro, small, and medium-sized enterprises (MSMEs). This research evaluates businesses

based on five criteria: business type, size, geography, firm traits, and enterprise stage. A company's characteristics and their impact on its ability to get funding are the primary foci of the first hypothesis.

A 2012 research by Anjum and Tiwari, "Role of Manufacturing Industries in India for Inclusive Growth," looked at how India's manufacturing sectors and labour reforms have helped the country reap the benefits of globalisation while keeping growth equitable for everyone. The research claims that India's economy has done quite well during the last decade. The most pressing concerns, meanwhile, are about inspector raj, antiquated employment rules, and the increased likelihood of worker disputes. The research suggests that India may take use of its demographic dividend and foster inclusive development by making use of the labour market's flexibility.

Srinivas (2013) said in his paper "Role of Micro, Small and Medium Enterprises in Inclusive Growth" that MSMEs are the driving force behind a nation's economic progress. In an effort to streamline this sector, there have been some significant policy changes at the federal and state levels in the last few years. Inadequate infrastructure and inadequate marketing linkages are the main reasons why MSMEs in India are not growing faster.

A number of measures that the Indian government may use to promote the expansion of these MSMEs are detailed in the paper. Lama (2013) looked at how micro, small, and medium-sized enterprises (MSMEs) fared in India's economy and policymaking. The many challenges and possibilities that micro, small, and medium-sized enterprises (MSMEs) encounter have also been studied by him. Report authors state that micro, small, and medium-sized enterprises (MSMEs) need to innovate more, lower costs, and boost output and quality. If micro, small, and medium-sized enterprises (MSMEs) are to continue thriving, we must ensure they have access to innovative technology, generous financing, a welcoming work environment, and supporting legislation.

Small and medium-sized enterprises (SMEs) in India were studied by Manna and Mistri (2017). Additional data was collected and analysed. They found, unsurprisingly, that micro firms are the most common kind of business in every state. However, they did find that certain advanced states continually bolster their small and medium-sized businesses. The industry helps to reduce regional inequities while also supporting regional prosperity.

Several government and SIDBI efforts were detailed by Mohanty (2018), who also examined the state and performance of the MSME sector. The study found that MSMEs did quite well within the last five years. This sector is growing at a rapid pace and is becoming more important for both urban and rural development.

The efficacy and future prospects of MSME were thoroughly investigated by Zanjurne (2018). She conducted an exploratory research and used secondary data to conclude that micro, small, and medium-sized enterprises (MSME) had a substantial impact on manufacturing output, employment, and exports.

Singh (2021) looked at the role, performance, challenges, and potential of India's MSME industry. According to the research, this sector makes a significant dent in India's industrial production, exports, employment, and the spread of entrepreneurship. On the other hand, micro, small, and medium-sized enterprises (MSMEs) have been hit hard by the epidemic, so it's clear the government has to do something about it.

The role of micro, small, and medium-sized enterprises (MSMEs) on India's GDP growth was studied by Das (2021). According to the research, micro, small, and medium-sized enterprises (MSMEs) have played a crucial role in the country's economic and social development by bolstering development in underdeveloped and rural regions, increasing exports and production, and providing employment opportunities.

Research Gap

Finding places where previous studies may have failed to cover or under-examined certain facets of a subject is a common method for identifying research gaps. A number of possible knowledge gaps exist about the Vidarbha region's micro, small, and medium-sized enterprises (MSMEs) and the ways in which public sector banks (PSBs) contribute to their success:

Existing research may not adequately disaggregate results by firm size (micro, small, medium), focusing instead on total MSME effects. Taking into account differences in financial requirements, operational difficulties, and development prospects, future study may investigate the effects of PSB interventions on MSMEs in Vidarbha of varying sizes.

While many studies look at the effects of recent policies, there may be a lack of research that follow the development and success of policies in Vidarbha that use PSB interventions to help micro, small, and medium-sized enterprises (MSME). Some possible topics to cover in this regard are the maintenance of policy results over time, responses to changing economic circumstances, and policy continuity.

While quantitative data offers useful indicators, qualitative research that delve into the viewpoints, experiences, and impressions of MSME owners and managers in relation to their dealings with PSBs in Vidarbha may be lacking. Gaining a deeper understanding of these qualitative aspects might enhance our understanding of the difficulties encountered by MSMEs and the effectiveness of PSB assistance.

Regional Comparisons: The majority of research may limit themselves to Vidarbha. It would be interesting to see how PSB-MSME dynamics, regulatory settings, and economic benefits vary among areas in India or throughout the world. Such comparisons have the potential to provide more generalised insights and best practices that are not limited to Vidarbha.

The rapid development of fintech and digital banking has led some to wonder if there is a lack of studies looking at how PSBs in Vidarbha are using these tools to increase the availability of capital for micro, small, and medium enterprises (MSME), streamline their operations, and broaden their customers' access to banking services.

If these knowledge gaps could be filled, we may have a better grasp of the PSB-MSME synergies in Vidarbha, which would lead to better policy suggestions and more focused interventions to encourage the growth of MSME and economic development in the area.

Conclusion

To sum up, this research has investigated the complex web of relationships between Vidarbha area public sector banks (PSBs) and micro, small, and medium enterprises (MSME), illuminating the crucial role of PSBs in fostering MSME expansion and economic development. A number of important conclusions have been drawn from a thorough literature study, qualitative insights, and quantitative analysis that constitute a mixed-methods approach.

The research showed that micro-and small-sized companies (MSMEs) rely heavily on PSB funding for growth and operating capital. Small businesses showed less operational losses and more efficient management practices than micro and medium firms, highlighting the diverse operational efficiency and difficulties across the various sizes of MSMEs. Additionally, the study assessed how well government policies have shaped the PSB-MSME ecosystem, finding room for improvement in areas including digital banking solutions promotion, loan procedure simplification, and financial literacy.

This study adds to the current body of knowledge by elucidating the ways in which PSBs in Vidarbha may improve the efficiency and effectiveness of their policies in support of micro, small, and medium-sized enterprises (MSME), which in turn can promote long-term economic development and resilience. Improving legislative frameworks, offering specialised financial products, and bolstering support systems are all ways to help micro, small, and medium-sized enterprises (MSMEs) thrive and encourage entrepreneurial endeavours. To guarantee that MSMEs continue to play a crucial part in Vidarbha's regional growth and economic success, stakeholders and legislators should work together to address these findings and provide a more welcoming and accommodating environment for them.

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