



Role of Public Sector Bank Financing in Enhancing Growth Performance of MSMEs in the Vidarbha Region

Ashwin Moreshwar Dhale

Research Scholar

RTM Nagpur University

Dr. Ab.Shakeel Ab Sattar

Research Supervisor

RTM Nagpur University

Abstract

Among the most important issues in the regional economical growth, job creation, and industrial diversification, MSMEs will be crucial. This paper will discuss how Public Sector Bank (PSB) financing will improve the growth performance of the MSMEs in the Vidarbha region. In the form of quantitative and analytical research system, primary data was obtained on the basis of a structured questionnaire based on the stratified random sampling method and 200 MSME units financed by the Public Sector Banks. The performance grew with the help of the indicators of growth in performance in terms of sales growth, employment expansion, and asset creation. Correlation and regression statistical analysis showed that there is a significant positive correlation between the loan amount, suitability of tenure, utilization of digital banking and the enterprise growth product. The results suggest that PSB financing plays a significant role with regard to the growth of MSMEs although its success depends on sector. The research highlights the need to properly structure credit, engage in digital banking and supportive financial service mechanisms to enhance the sustainability of MSMEs and economic growth in the region of Vidarbha.

Keywords: Public Sector Banks, MSME Financing, Enterprise Growth, Sales Performance, Employment Generation, Priority Sector Lending, Vidarbha Region, Digital Banking.

Introduction

MSMEs are an important part of the Indian economic set up as they play a major role in creating employment, industrial production, exportation, and development of the regions. MSMEs are being used as an agent of decentralized industrialization and income diversification in emerging and semi-urban areas like Vidarbha. In spite of their economic value, MSMEs continually experience limitations in terms of getting adequate/timely institutional finance. Poor collateral, lack of information, and extensive transaction expenses,



and perceived credit risk make them borrow formal bank credit, hindering growth in size and productiveness (Beck and Demirguc-Kunt, 2006).

PSBs are very critical in bridging such financing gaps. PSBs are institutionally geared towards the development of the enterprise, particularly in the underserved areas, via priority sector lending requirements and targeted MSME schemes. They play a key role in facilitating the growth of MSMEs because of their large network of branches, involvement in government-enhanced credit guarantee schemes, and compliance with the policies of financial inclusion. Nevertheless, the degree, to which PSB financing is converted to quantifiable growth performance in MSMEs, in terms of sales turnover, asset generation, employment as well as profitability is an empirical issue that must be addressed regionally.

A distinct situation with agrarian reliance, new industrial clusters and structural economic issues is witnessed in the Vidarbha region of Maharashtra. The MSMEs in this area are usually run under capital and fluctuating market conditions. Thus, the research of PSB financing effectiveness to increase growth performance in this regional context will help the development of academic literature as well as to formulate the policy. This paper attempts to analyze the claim on whether the bank financing by the public sector is a simple surveillance of the credit medium or as a radical tool of growth and sustainability of the enterprise in Vidarbha.

Literature Review

The interface between institutional finance and MSME growth has been given a wide scope of discussion in development finance literature. Beck and Demirguc-Kunt (2006) state that the financial development has a substantial positive impact of the growth of small firms by means of alleviating credit restrictions and increasing the efficiency in the allocation of resources. Their evidence across countries indicates that the availability of bank credit has a positive effect on the growth of firms, especially in under developed economies that do not have well-developed capital markets.

Ayyagari et al. (2011) also affirm that the external finance; mainly bank credit is closely aligned with the increased growth of employment among the small firms. Their results indicate that the companies that have more opportunities to access formal finance have a



quicker growth than businesses that are financially crippled. This highlights the significance of institutional lending systems towards increment in MSME.

Kumar and Rao (2015) survey financing behavior of Indian MSMEs and find that access to formal credit is uneven in the Indian context in spite of the policy intervention. They single out collateral requirements, procedural complexities and information asymmetry as the principal impediments. Their research underlines the importance of the fact that good bank-enterprise relations can have a key role in enhancing access to credit and performance results of the firms.

The contribution of priority sector lending (PSL) towards provision of credit to MSMEs has also drawn the interest of scholars. Ghosh (2018) discovers that directed credit programs lead to the improvement of financial inclusion but do not necessarily translate into productivity gains in the absence of effective monitoring and appraisal systems. The research indicates that the quality of credit, the size of the loan is adequate, and repayment arrangements determine the growth results.

Another factor that has been identified to determine the efficiency of MSME financing within banking is digital transformation. Meher, Hawaldar, Mohapatra, and Spulbar (2021) prove that the adoption of digital banking is associated with a great deal of contribution to the efficiency of the military of MSMEs and financial management. Their empirical data indicate that lower transaction costs and quickening the processing of the loan have a positive impact on the performance of the enterprise. This means the effect of modernization of operations in PSB can enhance the impact of growth by credit delivery.

Literature on geographical inequalities gives more emphasis on the context. According to Rajeev and Vani (2017), there are infrastructural, institutional, and financial ecosystem variations between regions owing to differences in performance of MSMEs. In areas with low economies, the infusion of credit by itself might fail to stimulate the growth to the same rate unless accompanied by market connections and development entrepreneurship.

The other significant dimension is the credit risk and sustainability. Banerjee and Duflo (2014) note that although access to credit can spur short-term growth, long-term growth has to rely on effective uses of funds and complementary management skills. This indicates that



in determining the efficacy of PSB financing, it is only necessary to determine not only the levels of disbursements but also real growth indicators within a firm.

On the whole, literature reveals that there is a positive yet conditional connection between institutional bank financing and the performance of MSMEs in growth. Although the world supports the growth enhancing property of access to credit, Indian research points to issues of structural and operational bottleneck that could modulate the results. Moreover, the effects of funds provided by banks as a result of public sector are under-researched in terms of particular analysis on MSMEs in the Vidarbha region. This location disparity motivates an empirical study with a special focus on the effects of PSB credit in increasing sales, developing assets, creating jobs, and sustaining commercial operation in this region.

Objectives:

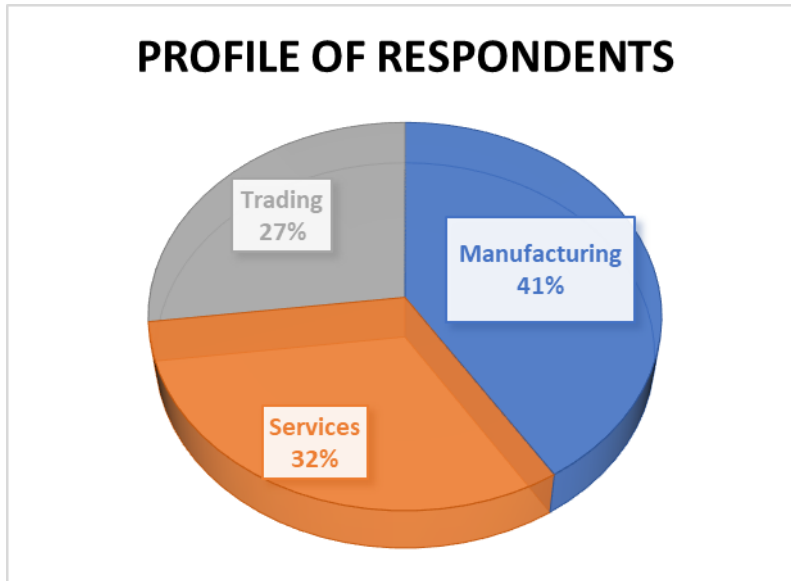
The primary objective of this study is to examine the role of Public Sector Bank financing in enhancing the growth performance of MSMEs in the Vidarbha region by analyzing the impact of credit accessibility, loan adequacy, and financial support mechanisms on enterprise sales, profitability, employment generation, and overall business sustainability.

Methodology:

The research design used in the study is quantitative, descriptive and analytical research design to determine the effects that Public Sector Bank financing has on the MSME growth performance in the Vidarbha region. The structured questionnaire to be applied in primary data gathering will be conducted to 200 MSME owners funded by Public Sector Banks, where stratified random sampling will be applied based on the manufacturing, service and trading industries. Bank reports, MSME records and government publications will be used to get secondary data.

Results and Discussion

The relationship between MSME growth performance in the Vidarbha region and the relationship between PSB financing is analyzed. To determine growth performance, indicators used include the growth in sales, embodiment of jobs, and growth in assets. The statistical tools to be applied are descriptive statistics, correlation and regression analysis.



Its sample is made up mainly of manufacturing units (41%), then it comprises 32 and 27 of services and trading enterprises respectively. This assumption corresponds to the industrial mix of MSMEs in Vidarbha and guarantees industrial coverage with respect to measuring the effects of PSB financing.

Table 1 Average Loan Size and Growth Indicators

Variable	Mean	Standard Deviation
Loan Amount (₹ in Lakhs)	18.5	7.2
Annual Sales Growth (%)	14.8	6.4
Employment Growth (%)	9.6	4.8
Asset Growth (%)	11.3	5.1

The mean loan that was advanced to the MSMEs was [?]18.5 lakhs. After financing, enterprises recorded outlooks of an average annual increase in sales that were 14.8 percent, employment that increased by 9.6 percent and assets which increased by 11.3 percent. It is an indication that there exists a positive correlation between institutional credit and performance expansion in sampled firms.

Table 2 Relation between PSB Financing and Growth Performance

Variables	Loan Amount	Sales Growth	Employment Growth	Asset Growth
Loan Amount	1	0.62**	0.54**	0.58**
Sales Growth	0.62**	1	0.49**	0.67**
Employment Growth	0.54**	0.49**	1	0.52**
Asset Growth	0.58**	0.67**	0.52**	1



There is a positive relationship between the loan amount and the sales growth ($r = 0.62$), employment growth ($r = 0.54$), and asset growth ($r = 0.58$) that is significant at the 1% level. This implies that increased PSB funding goes hand in hand with better performance indicators of enterprise.

Table 3 Regression

Predictor Variable	Beta Coefficient	t-value	Significance (p-value)
Loan Amount	0.48	8.12	0.000
Loan Tenure	0.21	3.46	0.001
Digital Banking Use	0.19	2.98	0.003
R² = 0.46			

The regression model accounts 46 percent of the variation in sales growth ($R^2 = 0.46$). The only positive impact is on loan amount ($b = 0.48$, $p < 0.001$) which is followed by loan tenure and usage of digital banking. The results show that financial magnitude as well as operational banking efficiency are both very effective in improving the sales performance of the MSMEs.

Table 4 Growth Performance Before and After PSB Financing

Indicator	Before Financing	After Financing	% Increase
Average Annual Sales (₹ Lakhs)	42.3	48.6	14.9%
Number of Employees	11	13	18.2%
Fixed Asset Value (₹ Lakhs)	25.7	29.4	14.4%

The performance indicators also improve significantly following the acquisition of PSB financing. The average annual sales went up by 14.9, employment growth has gone up by 18.2 and the increment in fixed asset value has been 14.4. The findings give empirical evidence that PSB credit positively impacts on tangible enterprise development in the area of Vidarbha.

The statistical analysis proves the high and positive correlation between Public Sector Bank financing and the performance of growth of MSME. Adequacy of the loans, a suitable time in taking the loan, and uptake of digital banking are all beneficial in terms of boosting sales, employment, and growth in assets. These findings corroborate the hypothesis that PSBs can act catalytically in enhancing one of the growth pathways of the MSMEs in Vidarbha.



Conclusion

The analytical results of the research develop a positive and statistically significant relationship between the financing of MSMEs in the Vidarbha region by Public Sector Bank (PSB) and their growth. The empirical data show that the loan adequacy, proper tenure structure, and digital banking assistance also play a significant role in enhancing the sales turnover, the creation of jobs, and the growth of assets. Regression outcomes have shown that the financing variables have a significant part of the explicatory powers on the growth of the enterprise, indicating that institutional credit is a catalytic, not the support mechanism of liquidity nature. The effects however differ on the basis of the sector and type of firms thus indicating credit efficacy is relative in contexts as well as operation. All in all, the research concludes that PSBs are very important in the process of enhancing sustainability of MSMEs and regional development in Vidarbha.

Recommendations

Going by the empirical analysis, it is advised that Public Sector Banks improve sector specific credit assessment models to align the loan adequacy with the business needs. The banks would be encouraged to offer flexible repayment arrangements and prolongation of working capital cycles according to cash flow-based trends of the MSME. Enhancing of digital banking infrastructure and simplification of documentation processes will also enhance access to credit and effectiveness of its monitoring. Also, PSBs ought to incorporate financial advisory services, entrepreneurship training, post-disbursement support so as to get the maximum use of funds. One strategy that can be resorted to by policymakers is to reinstate the credit guaranties and performance-based lending to minimize the risk of default as the credit flow is maintained. This will result in improved long term growth in Vidarbha, as better coordinated ecosystem approach between banks, MSME development agencies and local industry associations is implemented.

References

- Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2011). Small vs. young firms across the world: Contribution to employment, job creation, and growth. *World Bank Economic Review*, 25(3), 415–449.
- Banerjee, A., & Duflo, E. (2014). Do firms want to borrow more? Testing credit constraints using a directed lending program. *Review of Economic Studies*, 81(2), 572–607.
- Beck, T., & Demirgüç-Kunt, A. (2006). Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance*, 30(11), 2931–2943.



Ghosh, S. (2018). Credit allocation and firm performance: Evidence from priority sector lending in India. *Economic Modelling*, 71, 265–277.

Kumar, S., & Rao, P. (2015). A conceptual framework for identifying financing preferences of SMEs. *Small Enterprise Research*, 22(1), 99–112.

Meher, B. K., Hawaldar, I. T., Mohapatra, L., & Spulbar, C. (2021). The impact of digital banking on the growth of micro, small and medium enterprises (MSMEs) in India. *Business: Theory and Practice*, 22(1), 18–28.

Rajeev, M., & Vani, B. P. (2017). Financial constraints and performance of MSMEs in India. *Journal of Small Business and Enterprise Development*, 24(4), 815–836.