

# **A study on the challenges faced by MSMEs borrowing loans from banks under PMMY**

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## ***Abstract:***

*This paper is about the problems and challenges faced by MSMEs in borrowing funds from financial institutions in India. The major objective of this study is to identify the problems faced by customers regarding borrowing loans from financial institutions under PMMY. The researcher has used both primary and secondary data for the analysis of the data. The primary data was collected from Haryana state in India. The researcher has collected a sample of 260 MSMEs. The credit histories of the borrowers are checked, the public has the least information about the scheme, the online process is tougher than the offline process, commercial banks are reluctant to promote the scheme, etc. These are some of the major problems faced by the customers regarding the borrowing of loans under the PMMY scheme.*

***Keywords: Micro finance, MSMEs, borrowers, Financial Inclusion, Micro Entrepreneur, PMMY***

## Introduction:

The government has announced some significant steps towards funding the unfunded microenterprise segment, such as the Pradhan Mantri Mudra Yojana (PMMY). The Union Budget, presented by the Hon'ble Finance Minister Shri Arun Jaitley, for FY 2015-16, announced the formation of MUDRA Bank. Therefore, Micro Unit Refinance Agency (MUDRA) was registered as a company in March 2015 under the Companies Act 2013 and as a non-banking finance institution with the RBI on April 7, 2015. Prime Minister Narendra Modi launched the Mudra scheme on April 8, 2015, at a function held at Vigyan Bhawan, New Delhi. The Pradhan Mantri MUDRA (Micro Unit of Development and Refinance Agency) scheme is an important step in promoting financial inclusion in India. This scheme is a government initiative to help microbusinesses and encourage people to work for themselves (<https://www.firstpost.com>, 2018). These enterprises include micro units, which are concerned with manufacturing, processing, trading, and servicing activities. These micro units are classified as non-corporate small businesses. These sectors help the country achieve a high GDP growth rate and improve the quality of life for entrepreneurs.

This scheme, launched under the Pradhan Mantri Mudra Yojana (PMMY), offers low-interest loans to microfinance institutions (MFIs) and non-banking financial institutions, which in turn offer collateral-free loans between ₹50,000 and 10 lakhs to micro, small, and medium enterprises (MSMEs) or small borrowers to facilitate them starting their own venture and turning into job providers instead of job-seekers.

## Literature Review:

**Beck et al (2006)** analysed the financial obstacles faced by business firms. The research study is based on the primary data, which was collected from 10,000 firms in 80 countries. The study found that high interest rates top the lists of specific financial obstacles, followed by the lack of access to long-term loans. On the other hand, corruption of bank officials, is rated as only a minor obstacle. In addition to this, the study also found that older, larger, and foreign-owned firms reported fewer financing obstacles. **Sanchita (2010)** discussed the management problems and restrictions faced by women entrepreneurs in the small-scale industry of Haryana, including lack of self-confidence, problems with adequate finance, socio-cultural barriers, working capital, manufacturing problems, and incompetent marketing activities. **Jaim (2011)** focused on the problem faced by the small entrepreneur in availing loans from private commercial banks in Bangladesh. The study is based on primary and secondary data. The primary data were collected from 48 entrepreneurs in 2007. The study research study found that document collection and preparation was the most cumbersome problem which is faced by the entrepreneur in Bangladesh. **Chimucheka & Rungani (2013)** examined the hurdles to accessing finance by small business operators in the Buffalo City Metropolitan Municipality. The research study used primary data from 200 respondents and a triangulation research design. The study found that lack of collateral security, poor business plans, a lack of knowledge, and a lack of financial deposit are some of the main factors identified. Furthermore, the study suggested that banks, the government, and government agencies should support the SMME sector. **Biswas (2014)** described the problem faced by the MSMEs sector and identified the constraints and barriers faced by the MSMSEs sector in India. The secondary data used by the

author for the study. The study found that the main problem that MSMEs are facing today is timely access to finance. Furthermore, the MSMEs sector does not get adequate support from government departments, financial institutions, or banks. **Gichuki *et al.* (2014)** highlighted the difficulties that micro- and small businesses had in obtaining credit at Kangemi Harambee Market in Nairobi City County, Kenya. The paper used primary data, which was collected from 656 MSEs. The study discovered that the key challenges obstructing micro and small enterprises from accessing credit facilities were the high cost of repayment, unwillingness of people to act as guarantors, strict collateral requirements, high credit facilities, processing fees, and short repayment period. **Singh & Wasdani (2016)** highlighted various challenges confronted by MSMEs in sourcing finance during different stages of their life cycle. This study was based on primary data, which was collected through a structured questionnaire. The information was gathered from 85 entrepreneurs of MSMEs in the Bangalore district via online and offline interviews. The study found that the core challenges faced in the underutilization of formal sources were a shortage of collateral assets, a deficiency in financial awareness among entrepreneurs, and a lengthy loan process. **Raj *et al.* (2019)** main objective of beneficiaries to avail the mudra loan for starting fresh business and for existing entrepreneurs to expansion of their existing commercial activities. The lengthy processing time for the Mudra loan application was the major problem faced by the entrepreneurs in accessing the credit. The authors also observed that the young entrepreneurs did not receive the full amount of the loan. Because this scheme was collateral-free, the bank assessed the risk of each individual. **Khatri (2019)** discussed the issues and challenges that the Indian MSMEs sector faces. The study revealed various aspects related to problems of finance, marketing, technology, human resources, operations, and export potential based on secondary data. The main problems that the author revealed are trouble acquiring timely funds for working capital needs, ,complicated documentation, lack of consultancy support, ,absence of the latest technological skills, need-based research programs, low ICT knowledge, lack of motivation, existence of high employee turnover, inefficient logistics, low-quality products, informational gap, infrastructural gaps, poor bargaining power, complicated laws, lack of foreign quality certifications, consistency in policy uncertainty, etc. **Saifi (2021)** discovered the challenges facing micro, small, and medium-sized enterprises (MSMEs) when accessing funds from financial institutions in the West Bank in n Palestine. The primary data used by the researcher was collected from 200 staff working at MSMEs. The study found that the main challenges hindering MSMEs from accessing credit facilities are high repayment costs, not getting the exact amount applied for, stringent collateral requirements, a lack of guarantors, a lack of sufficient collateral, high credit processing fees, and short repayment periods.

### **Objective of the study:**

The objectives of the study are as under:

- To identify the problems faced by the customers regarding the borrowing of the loan from PMMY in India.
- Identify the challenges faced by MSMEs in borrowing finance from financial Institutions.

## Research Methodology

The researcher used both primary and secondary data for this study. The primary data was collected from Haryana. Convenience sampling techniques have been adopted to identify the borrowers for the present study. The researcher has collected a sample of 260 customers. The researcher has used simple percentage and weighted average methods. The secondary data were collected through various journals, websites, and papers.

## Analysis and interpretation:

Table 1.1 shows the challenges and problems faced by the Mudra borrower during the loan process. The author highlighted the 12 main problems that the borrowers were facing and would take a response from the respondent. The data shows up on the Likert scale.

**Table 1.1: Actual score of problem faced by borrowers to taking Mudra loan**

S.No	Particulars	5	4	3	2	1	Total
1	There is Requirement of collateral security in MUDRA Loan	15	14	17	72	142	260
2	There are very high Interest Rates in MUDRA loan scheme.	10	16	30	99	105	260
3	The loan Processing time is very long in PMMY.	16	29	38	87	90	260
4	There are more loan formalities in MUDRA scheme.	15	20	33	107	85	260
5	Credit history has to be very strong for availing loans in MUDRA scheme	91	86	38	21	24	260
6	Online process is tougher than offline process when applying for MUDRA loans	44	41	82	58	35	260
7	There is an influence of third party in sanction MUDRA loans	7	7	34	94	118	260
8	The behaviour of bank officers not being good.	8	10	20	95	127	260
9	Commercial banks are reluctant to promote MUDRA scheme.	43	48	29	60	80	260
10	The public has the least information(awareness) about the Mudra scheme	50	60	34	75	41	260
11	There are High Loan processing charges in MUDRA scheme.	16	32	29	84	99	260
12	There is chance of corruption while taking loans under Mudra scheme.	19	24	47	82	88	260
	Total	334	387	431	934	1034	3120

Source: primary data

\*\*5- strongly disagree,4- Disagree,3- neutral, 2- agree,1- strongly agree

Table 1.2 shows the weighted score of the challenges that Mudra borrowers faced during the loan process. The actual score of borrowers was multiplied by the weight and then driven to a score that is known as a "weighted score."

**Table 1.2: Weighted scores of problems faced by the borrowers to taking MUDRA loan**

S. No	Particulars	weights					Total
		5	4	3	2	1	
		Weighted score					
1	There is Requirement of collateral security in MUDRA Loan	75	56	51	144	142	468
2	There are very high Interest Rates in MUDRA loan scheme.	50	64	90	198	105	507
3	The loan Processing time is very long in PMMY.	80	116	114	174	90	574
4	There are more loan formalities in MUDRA scheme.	75	80	99	214	85	553
5	Credit history has to be very strong for availing loans in MUDRA scheme	455	344	114	42	24	979
6	Online process is tougher than offline process when applying for MUDRA loans	220	164	246	116	35	781
7	There is an influence of third party in sanction MUDRA loans	35	28	102	188	118	471
8	The behaviour of bank officers not being good.	40	40	60	190	127	457
9	Commercial banks are reluctant to promote MUDRA scheme.	215	192	87	120	80	694
10	The public has the least information(awareness) about the Mudra scheme	250	240	102	150	41	783
11	There are High Loan processing charges in MUDRA scheme.	80	128	87	168	99	562
12	There is chance of corruption while taking loans under Mudra scheme.	95	96	141	164	88	584

**Source:** Compiled from primary data (MS-excel output)

### Mean score of problems faced by the borrowers at the time of borrowing MUDRA loan in Haryana

The mean score of problems faced by the borrowers at the time of borrowing the MUDRA loan.

$$\text{Mean Score} = \frac{\text{Total Weighted Score of respondents}}{\text{Number of Respondents}}$$

Table 1.3 shows the mean score of problem faced by the borrower at the time of borrowing mudra loan from financial institutions. The analysis shows that the “that the Credit history of the borrower is checked” (Mean=3.76,Total score= 979) is the main problem that has been faced by the borrowers, followed by “The public has the least information about the scheme”(Mean=3.01,Total score= 783) and “Online process of tougher than offline process” is ranked third (Mean=3.00,Total score=781).Further the problem that has been ranked forth is “Commercial banks are reluctant to promote the MUDRA scheme”(Mean=2.67, Total Score=694) followed by “There is chance of corruption in loan sanction process”( Mean=2.24, Total Score=584). Furthermore, “Long loan processing time” (Mean=2.20, Total Score=574) is ranked sixth followed by “Loan processing charges are high in the MUDRA loan process” (Mean=2.16, Total Score=562). In addition to this, “There are more Mudra loan formalities” (Mean =2.12, Total Score = 553) have been ranked eighth followed by the “High interest rates in the Mudra scheme” (Mean =1.95, Total Score= 1.95) ranked ninth and “Influence of any third party” (Mean=1.81, Total score=471) ranked tenth in all problem. The least problems that has been ranked by the borrowers are “requirement of collateral security” (Mean= 1.8, Total score= 468) and “The behavior of bank officials is not good” (Mean= 1.75, Total score= 1.75) is ranked twelfth, It means behaviour of banker officers were good.

**Table 1.3: Mean score and Rank**

<b>Sr. No.</b>	<b>Particulars</b>	<b>Total score</b>	<b>Mean</b>	<b>Rank</b>
1	There is Requirement of collateral security in MUDRA Loan	468	1.8	XI
2	There are very high Interest Rates in MUDRA loan scheme.	507	1.95	IX
3	The loan Processing time is very long in PMMY.	574	2.20	VI
4	There are more loan formalities in MUDRA scheme.	553	2.12	VIII
5	Credit history has to be very strong for availing loans in MUDRA scheme	979	3.76	I
6	Online process is tougher than offline process when applying for MUDRA loans	781	3.00	III
7	There is an influence of third party in sanction MUDRA loans	471	1.81	X
8	The behaviour of bank officers not being good.	457	1.75	XII
9	Commercial banks are reluctant to promote MUDRA scheme.	694	2.67	IV
10	The public has the least information(awareness) about the Mudra scheme	783	3.01	II

11	There are High Loan processing charges in MUDRA scheme.	562	2.16	VII
12	There is chance of corruption while taking loans under Mudra scheme.	584	2.24	V

**Source:** Compiled from Primary data (MS Excel Output)

**Challenges faced by MSMEs:**

According to table 1.4, the borrowers had the most trouble with inaccurate security valuation and bank paperwork (F = 7). After this "highest interest rate " another challenge is faced by the borrowers. Other issues that the businessmen faced included loan processing time, a lack of financial knowledge, and not having the loan amount applied.

**Table 1.4: Challenges on the basis of literature**

Factors	Inaccurate Security Valuation/collateral security	Bank Paperwork	High Interest Rate	Not Getting the applying loan	loan Processing Time	lack of financial knowledge	Lack Of Knowledge About Available Schemes	Technological
Beck <i>et al</i> -2006		√	√					
Jaim (2011)	√	√						
Chimucheka & i(2013)	√					√		
Gichuki (2014)	√		√	√				
Singh& Wasdani (2016)	√	√			√	√	√	
Rao(2017)			√			√	√	
Gaziasayed (2018)		√		√				√
Patnaik <i>et al</i> (2018)	√		√	√			√	
Yoshino( 2018)								√
Khatri (2019)	√				√			
Raj <i>et al.</i> (2019)		√						√
Nachammai <i>et al.</i> (2019)	√	√						
Saifi (2021)		√	√		√			
Total(f)	7	7	5	3	3	3	3	3

**Source:** Compiled from Secondary data

## Conclusion:

Every individual requires finances to convert his or her plan into action. Pradhan Mantri Mudra Yojna satisfies the need for finance by providing loans to MSMEs. They face many problems when borrowing loans from financial institutions. The major reason for these challenges is that the bank wants to ensure the security and repaying capacity of the customers. Therefore, steps should be taken by the government to increase the operating efficiency of banks in providing loans. According to the study, the major challenges are that credit histories are checked, there is little information available about the scheme, and the online process is more difficult than the offline process. PMMY Yojna is a step towards overcoming the challenges that small entrepreneurs face. There should be a relaxation of the credit histories of the borrowers who borrow under PMMY. Financial institutions must raise awareness about the PMMY scheme. These issues should be investigated by the government and policymakers. Financial institutions play a vital role in promoting PMMY among the people.

## Further scope of the study

The research study is limited to the state of Haryana only. The researcher can conduct similar research in another Indian state and obtain results.

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