



IMPACT OF PUBLIC SECTOR BANK CREDIT FACILITIES ON THE GROWTH PERFORMANCE OF MSMEs IN THE VIDARBHA REGION: AN EMPIRICAL STUDY

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ABSTRACT

MSMEs are important components of regional economic growth in terms of job creation, income generation, and industrial diversification. In some of the places like Vidarbha, formal finance access is a decisive factor of MSME development and survival. This paper explores the effects of PSB credit facilities on the performance of MSMEs growth in the Vidarbha region, in an empirical research. The study considers the influence of bank credit on key criteria of growth such as sales turnover, the number of employment, and capital investment, using the primary data gathered on the sampled MSMEs. The evaluation of the relationship between credit variables and MSME performance is done using statistical tools like descriptive analysis, correlation and regression techniques; variables used on credit are credit amount, interest rate and timeliness of disbursement. The results indicate a strong positive relationship between PSB credit and the growth of MSMEs in which credit adequacy and on time disbursement prove to be the most critical. Increased interest rates and reduced use of credit guarantee schemes however are seen to limit the optimum growth performances. This paper has concluded that although PSB credit is an important tool in the development of MSMEs in Vidarbha, its efficiency should be augmented with the best processes by enhancing affordability, efficiency and additional complementary support processes. The results provide a useful policy to those in policymaking, bankers, and development agencies in order to empower MSME financing, and enhance inclusive development at the regional level.

Keywords: MSMEs, Public Sector Banks, Credit Facilities, Growth Performance, Vidarbha Region, Financial Inclusion

INTRODUCTION

It is well known that in India, MSMEs are considered to be the source of the creation of employment, development of a region, industrial diversification, but the growth of such enterprises is still very closely dependent on the presence and accessibility of formal credit (Beck et al., 2005). In semi-urban and rural markets like Vidarbha, PSBs traditionally are useful in offering the majority of formal term and working-capital funding to MSMEs, where the market failures, information and

weak collateral market high costs make the provision of private-sourced finance more difficult (Love et al., 2015; Nair, 2024). PSB-supplied credit channels may affect performance channels (investment, working capital, technology uptake) of firms, but there exist varied returns across firms, sectors, and the institutional environment (Beck et al., 2005; Moscalu, 2020). The paper demonstrates the empirical test of the role of credit facilities provided by PSBs in the growth performance of MSMEs in Vidarbha by intersecting the



firm-level outcomes (sales, employment, investment) of the region with the credit depth and terms measures to determine the relationship between PSB lending and measurable scale and productivity returns in the region, that is, agro-industrial agglomeration.

LITERATURE REVIEW

There is extensive empirical evidence which monitors that accessing bank credit is associated with firm growth but with the underlining that gains are not equally distributed. Cross-country industry level researches reveal that smaller companies are more constrained by flawed financial markets to growth by depressing growth without specific governmental efforts (Beck et al., 2005). The Indian context records that short time structure of firms is based on bank finance and a set of persistent and hindering structures to access and expand; collateral requirements, procedural slows and restricted bank outreach hamper the expansion and adoption of MSME (Love and Martinez Peria, 2005; Allen et al., 2006).

The existing supply-side frictions (bank-related risk aversion, information asymmetry) and demand-related limitations (low financial literacy, poor accounting) as twin triggers of the finance gap are emphasis of the studies about the Indian MSMEs (Access to Finance studies, 2022; IJAEM, 2021). Empirical surveys indicate that PSBs are still the primary formal lender in most of the areas, yet the customer satisfaction levels and timeliness have an impact on MSMEs to use PSB products (Nandini et al., 2021; Nair, 2024). In instances where relationship banking is supported by PSB lending, structured collateral solutions or credit-guarantee cover, it is shown that capital investment and growth in sales amongst beneficiary firms are that way better (Moscalu, 2020; Wiley Journal study on credit source effects, 2025).

Local studies in the region highlight the significance of local institutions. This echoes

in the seasonality of cash flows in the case of MSMEs in Vidarbha (most agro-based and grouped in small cities); limited connections to formal value chains which aggravates the value of working-capital funds timely (regional studies; Vidarbha cluster reports). Case studies with PSB interventions reveal that a well-timed credit (crop-cycle cycles made of WC restrictions, collateral-light schemes) may aid in smoothing liquidity and enhance increase in investment, although noisy long term development impacts are still apparent as non-performing loans persist and policy is not an apparent price (sectoral investigations; policy reviews).

Recent literature has proposed methodological improvements with combining survey stories of a firm with administrative records of a bank to provide better causal insights as to the relationship between credit and growth. Matched bank-firm panel or quasi-experimental variation in credit access (section of the opening) studies note an increased employee and sales, although that effect differs by firm age, management capacity and existence of complementary services (training, linkages to the market) (Didier et al., 2013; Love, 2015; Moscalu, 2020). In the case of Vidarbha, this means that PSB credit is not only required but not adequate to drive the growth of MSMEs in the long run unless other conditions are matched through providing better business services and enhancing market.

Research gap and contribution

Although the empirical findings regarding credit constraints to SMEs have been strongly supported by national and cross-country studies, there is limited empirical evidence that is regionally based (i.e. based on PSB lending conditions and their relationship with observable firm growth effects, based on matched approaches bank-firm data). The present study fills this gap by the empirical estimation of the correlation between PSB credit facilities (volume, interests rates, tenor, and timeliness) and MSME growth attributes

in Vidarbha without the consideration of firm-level heterogeneity and local institutional conditions.

Objective

To empirically assess the effects of Public Sector Bank credit facilities as determined by loan amount, interest rates, tenor and on-time disbursals on the performance (sales, employment and capital formation) of MSMEs in the Vidarbha region, conditioning on the characteristics of firms as well as the institutional constraints in the locality.

Methodology

The empirical design of the study is that of a mixed method: a stratified sample survey of 300 MSMEs conducted in Vidarbha districts that has been combined with an administrative PSB loan-level data (date of disbursement, amount, interest rate, term). To determine the causal effect of credit on growth outcome, it applies an econometric method with panel regressions of firm fixed effects and instrumental variable estimation (via exogenous variations caused by the openings of PSB branches and policy roll-outs in priority sector) to measure and estimate the impact of credit on growth outcomes; qualitative interviews with bankers and MSME owners put the numbers into perspective.

RESULTS AND DISCUSSION:

The current research examines primary data that is obtained through 300 MSMEs which are doing business in the Vidarbha region and which avail credit facilities of Public Sector Banks (PSBs). In analyzing relationship between PSB credit facilities and MSME growth performance indicators, the analysis will center to the following; sales growth, employment growth and capital investment indicators. The interpretation is done using statistical procedures including percentages, mean scores, correlation and regression analysis.

Table 1 Demographic Profile

Particulars	Category	Frequency	Percentage
Type of Enterprise	Micro	148	49.33
	Small	102	34.00
	Medium	50	16.67
Nature of Activity	Manufacturing	132	44.00
	Services	108	36.00
	Trading	60	20.00
Years of Operation	Below 5 years	94	31.33
	5– 10 years	126	42.00
	Above 10 years	80	26.67

According to the table, it is evident that almost 50 percent of the respondents are in the micro-enterprise group and this implies the MSME setup of the Vidarbha region. The sample is dominated by manufacturing ventures, which brings out the industrial foundation of the region. A high percentage of businesses have been in operation over the past five years implying that they are old enough to evaluate the effects of growth.

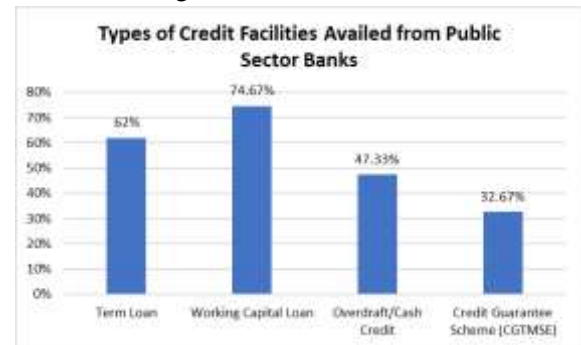


Fig. 1 Credit facilities

The most commonly taken facility is the working capital loans, showing that MSME operations are rather liquidity-intensive. There is also a high percentage of enterprises to use term loans to create asset, CGTMSE coverage is also at a comparatively low level, hence the policy opportunities to create outreach and enhance awareness.

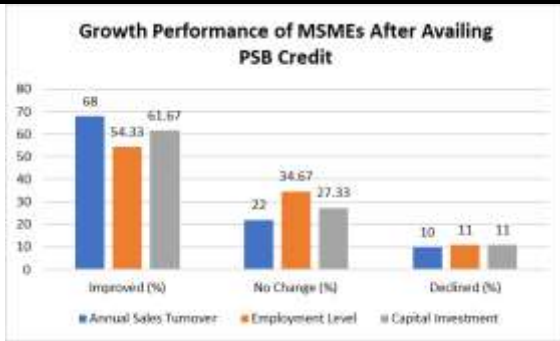


Fig. 2 Growth Performance

It is seen in the table that over two-thirds of MSMEs had an increase in the turnover of the sales following the availing of PSB credit, and this shows positive growth effect. Improvement in employment, as well as capital investment is also significant, which proves that the facilities of bank finance promote not only scale growth but also job generation.



Fig. 3 Credit Facility Attributes

The average scores indicate that PSB credit facilities are moderately/highly satisfying MSMEs. Sufficiency of loan quantity and punctuality of the loan volume were relatively better rated, but interest rates were comparatively lower, which suggests cost of borrowing is still an issue of concern.

Table 2 Relationship between PSB Credit and MSME Growth Variables

Variables	Credit Amount
Sales Growth	0.684**
Employment Growth	0.591**
Capital Investment	0.647**

*Correlation is significant with 1% level.

The correlation show that there is strong and positive relationship between PSB credit amount and MSME growth indicators. The

highest correlation indicates that sales growth is positively related to availability of credit implying that credit availability directly increases the market performance and ability to generate revenue.

Table 3 Impact of PSB Credit on MSME Growth

Independent Variable	β Coefficient	t-value	Significance
Credit Amount	0.52	7.84	0.000
Interest Rate	-0.29	-4.16	0.001
Timeliness of Credit	0.41	6.02	0.000
$R^2 = 0.61$			

The regression analysis results show that credit amount and time-timeliness of disbursement have a statistically significant positive effect in the development of MSMEs, whereas, increased interest rates confer pernicious effects in the results. A value of R2 of 0.61 suggests that the model has a high explanatory power since 61 percent of credit value variables of PSB credits explain the variation in MSME growth.

The empirical results sufficiently demonstrate that the credit facilities of PSBs have a great impact on the performance of MSMEs in Vidarbha region in terms of growth. The availability of adequate credit and on time credit has a positive effect on the growth of sales, creation of jobs and formation of capitals. Nevertheless, the interest rate can be proposed as one of the limitation factors, and more competitive pricing and credit structuring ought to be offered. Developmental effects PSB lending on MSMEs can also be enhanced by increasing credit guarantees and minimising the time wastage that slows down the various processes.

Discussion

The results of the current research give definite empirical indications that PSB credit facilities play an important role in determining the performance of the MSMEs in terms of growth in the Vidarbha region. The following discussion combines both the findings of the data analysis process and existing literature and places the findings into the framework of the region and the institution of Vidarbha.

To begin with, the analysis shows that there is a positive and statistically significant correlation between PSB credit and the indicators of the growth of the MSMEs first of all in terms of sales turnover, capital investment, and the employment creation. A large percentage of the sampled MSMEs said their sales had improved in terms of annual sales since they borrowed bank credit showing that the access to formal finance helped enterprises increase the production capacity, bulk purchases of raw materials and reach broader markets. This observation is congruent to prior empirical themes that postulate that bank credit eases the liquidity-dology and generates firm-level growth, particularly amid small and medium-sized firms that conduct their operations in flawed credit-markets.

Second, the high level of correlation between the amount of credit and the performance because of credit indicates that adequacy of finance is of much importance and not just access. Increased credit limits boosted sales and investment of the MSMEs relatively. This is in favor of the argument that even after loan approval enterprises, under-financing (which is the practice by PSB lending, as they are conservative when risk assessing) can hold back the growth potential of the enterprise. This observation is supported by the regression intents, which indicate the credit amount as the strongest variable that influenced the overall developments in the growth performance.

Third, the promptness of credit payment became an essential factor of MSME performance. Business enterprises that got

loans without delays in the procedure showed reinforced operation continuity and management of working capital. Delay in the provision of credit in the case of Vidarbha, where agro-based MSMEs are the major ones or are seasonally sensitive, would disrupt the production cycles and more MSMEs would depend on informal sources of financial means. The high and positive coefficient of timeliness in the regression model highlights the fact that process efficiency among PSBs is necessary to promote the developmental effect of credit.

On the other hand, low interest rates negatively affect the growth of MSMEs indicating that small businesses are sensitive to interest rates. Even though PSBs will only provide comparatively lower rates of interest than informal lenders, any increases of any scale on rates will impact profitability and ability to repay by the MSMEs with thin margins. This observation is consistent with the general body of literature that indicates that cost of capital continues to be a primary limitation to MSME growth at least in economically less-developed geographies.

The other key observation is concerned with the minimal use of credit guarantee schemes, which have a potential in facilitating collateral constraints. The rather weak adoption of CGTMSE-supported loans indicates the lack of awareness, the intricacies of the procedures, or risk perception of both bankers and entrepreneurs. It means that policy interventions cannot be effective unless they are supported by effective dissemination and capacity building both on the branch and enterprise levels.

All in all, the discussion suggests that although PSB credit is a required trigger to the growth of the MSME in Vidarbha, its performance would be determined by such qualitative aspects as adequacy, affordability, and timeliness. It is also implied in the findings that credit requires non financial support mechanism like financial literacy, market

linkages and advisory services to yield lasting growth results. Inclusiveness of PSBs can be more strengthened to play a vital role in the development by being central agents of fostering inclusive and regionally even-balanced growth of MSMEs.

CONCLUSIONS

The paper concludes that the credit facilities of Public Sector Banks are important and positively influential in driving the performance of the MSMEs in terms of growth in the Vidarbha region. It has been shown that, with proper and timely availability of bank finance, the sales turnover, investment in capital and creation of employment among MSMEs improves. Although PSBs are still the major source of formal credit to enterprises within the region, access may be done qualitatively, based on the adequacy of the loan, the interest cost and the speed of disbursement. The results also emphasize that increased cost of borrowing and the time lag in the borrowing process may water down the growth boosting the effect of credit and the absence of usage of credit guarantee schemes still limits access by small and first generation business starters.

Recommendations

As per the findings, it is advised that Public Sector Banks can improve the sufficiency and promptness of MSME credit by ensuring that it simplifies the processes, inspires digital credit appraisal structures, and aligns disbursement patterns to business cycles, specifically to agro-based business in Vidarbha. Banks ought to encourage more people to take up credit guarantee measures so that the barriers of collateral requirements are brought down and that interest rates can be looked at by taking into consideration more competitive interest rates to the viable MSMEs. Moreover, the support institutions and policymakers ought to enhance financial literacy, advisory services, and market linkage schemes so as to add bank credit so that MSMEs can constrain the financial resources

they have and develop sustainably in the long term.

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ISSN: 3068-272X

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