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RELATIONSHIP BETWEEN LENDING PROCEDURES, NORM AND PERFORMANCE OF COMMERCIAL BANKS FOR CREDIT TO INDIAN SME

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Abstract: This study aims to address the relationship between lending procedures and lending norms of commercial banks and understand the individual & combined effect of lending procedures and lending norms on the lending performance of commercial banks for advances to Small and Micro Enterprises (SME). Through this paper, the identified gap is addressed with the help of the database retrieved from RBI annual reports, commercial bank annual reports, circulars, risk-rating framework, and related publications. The lending procedure and lending norms are the two fulcrums of qualitative and profitable lending. The qualitative lending procedure depends on strict uses of prudential lending norms of the central bank, internal factors of the commercial bank itself, external factors derived during the project appraisal process, and unobserved variables from third parties. Similarly, credit appraisal, credit risk and credit rating must be based on the strict benchmark of lending norms. If an assessment of the factor of lending procedures and/or lending norms is showing lower than the benchmark level; there may be a cent-percent probability of higher risk, lower safety, lower rating score, indefinite return, and maximum chances of NPA of loan. It is outlined that lending performance is influenced by the factors of lending procedures and lending norms and observed that there is no scope to compromise lending procedures and norms. There is a proportional relation between lending procedure and lending performance and lending norms and lending performance. In recent years, the credit volume, and credit growth rate of commercial to MSE has been increasing particularly after 2014-15 which indicates a sign of correction.
Keywords: Lending Procedure, Lending Performance, Credit flow to MSME, Prudential Credit Norms, Commercial Banks Credit to MSME.

I. INTRODUCTION

The lending procedure is a chronological process to examine the economic viability and technical feasibility of a borrower, the borrower is a "Small and Micro Enterprise-SME or Micro and Small Enterprise-MSE are integrable throughout the paper". The borrower submits a Detailed Project Report (DPR) for the proposed loan which is accompanied by detailed information about the firm with a special focus on assets and liabilities, details of marketing arrangement, management & organizational, technical aspects, product specification, economic resources, legal & environmental constraints, and infrastructure status. Apart from the information mentioned in DPR, the banker collects additional information about the firm from external sources if needed. Thereafter banker appraises viability of the borrower's project. If a project seems economically viable and technically feasible, it will continue for credit appraisal otherwise, it will turndown.

The lending norms are statutory, stipulated and predefined benchmarks of lending parameters fixed by the financial regulator and the bank itself for examination of the financial health of the firm. There are two forms of lending norms one is the general norm and another one is the prudential norm. The banker and borrower have to follow the prudential norm strictly. The Bank applies lending norms during the lending procedure to examine the economic viability and technical feasibility of the project. The lending norms discuss benchmark scores or criteria related to financial indicators (quantitative) and non-financial indicators (qualitative) like economic, market & industrial, management & organizational, and environmental information of the firm. The constraints of lending norms are applicable during the project appraisal, credit appraisal, credit risk & credit rating assessment, margin money assessment, assessment of bank finance, and sanction and disbursement of loan.

The lending performance concerns the volume of loans sanctioned to the firm by the commercial bank. The benchmark criteria of lending norms standardize the lending procedures, which means lending procedures are based on prudential norms. The combined effects/forces of the lending procedure and lending norms determine the direction of lending performance. If the lending procedures and lending norms (LPLN) are according to the stipulated benchmark there will be qualitative lending otherwise non-qualitative with higher risk. In the case of qualitative lending, bank advances perform properly, otherwise loan is converted into "non-performing assets".

In the case of MSE, the Reserve Bank of India has formulated and implemented various concepts and guidelines of lending procedures and lending norms for healthy bank finance through circulars and guidelines. Micro enterprises are facilitated with easy benchmarks and various relaxations, but in the case of small enterprises the benchmark requirement is slightly tough with fewer relaxations, and medium enterprises have rigorous requirements with zero relaxations. The lending procedure of commercial banks in the case of finance to MSE is based on three criteria: lending procedure based on fund-based and non-fund-based finance, lending procedure based on the year of repayment, and lending procedure based on the size of the loan.

A normal term loan or working capital loan is the best example of a fund-based credit facility. In a fund-based credit facility, the risk associated with the loan is covered by collateral security. In the case of a non-fund-based credit facility, the loan amount is not covered by any collateral security. However, in the case of loans to priority sector units, there is a weaver in collateral security in the case of MUDRA, PM-Vishwkarma, or PM-SUI Scheme. The lending procedure which is based on the year of repayment classifies the lending procedure into three types in the case of MSME-MSE viz. procedure for long-term loan (5 years and above), medium-term loan (up to 5 years), and short-term loan (up to 3 years). In the case of a working capital loan which is by nature treated as a short-term loan with condition of renewal after one year. Consortium finance is a method of finance in which two or more financial institutions jointly finance the project. In the case of MSE finance, normally there is no requirement for consortium finance. In some cases, commercial banks finance working capital loans and SIDBI finances term loans separately. In this study the MSME consists database of Micro and Small enterprises. The database of lending procedures, lending norms and lending performance of micro and small enterprises (MSE) is considered in this paper because all policies of RBI and government are majorly focusing on MSE. The following sections describe the review of literature, research gap & objectives, methodology and data structure, analysis and findings, and conclusion of this study.

II. REVIEW OF LITERATURE

A review of the literature comprises a review of studies related to lending procedures, lending norms and lending performance of commercial banks for advances to MSE and/or SSI (Small Scale Industries). There is not any scholarly work related to this title. However, there are few but relevant studies closely related to the lending procedure and lending norms of commercial banks for advances to MSE; these studies were conducted by various research committees and study groups under the guidance of RBI. Some of the important studies are known exclusively under the funding and guidance of RBI. Important studies are- "Hazari (1971) studied differential interest of rate, Chore (1979) discussed norms for industrial advances with a focus on SSI. Hasib (1986) suggested a rehabilitation package for sick SSI units. Narshimham (1991) discussed structural and operational changes and lending mechanisms of commercial banks for industrial finance in general and SSI finance in particular. Shetty (1993) recommended syndicate finance for SSI".

Nayak (1997) recommended that "preference must be given to the units of the village and tiny industries and other small-scale units in that order while meeting the credit requirements of the small-scale sector; grant working capital credit limits to SSI units based on a minimum of 20 percent of their estimated annual turnover whose credit limit in individual cases is up to Rs.2 crore", further Nayak strongly advocated for a cash credit facility to SSI at 20 percent of projected turnover, the credit limit in individual cases is extended up to Rs.5 crore". Narshimham (1998) recommended that "commercial banks must give leverage to SSI finance. Kapur (1998) recommended "simplification of application forms and freedom for banks to decide their norms for the assessment of credit requirements". Kohli (2002) observed and recommended for rehabilitation of sick SSI, Ganguly (2004) cash budget-based flow of credit to SSI, RBI (2005) directed to commercial banks through circulars on lending to small-scale industries. Murthy (2005) examined comparatively with other nations' credit to SME sector. RBI (2014) circular on priority sector lending. Pankaj (2002) focused on lending procedures and lending norms of commercial banks and their impact on Indian Economy. Pankaj (2002) suggested for importance of credit risk and credit rating mechanisms for Credit Appraisal, Risk, Rating, and Interest Rate" decisions for advances to SSI.

III. RESEARCH GAP, OBJECTIVE AND METHODOLOGY

3.1. Research Gap

No study focuses on the relationship between lending procedures and lending norms of commercial banks for advances to MSE as well as the effects of lending procedures and lending norms on credit performance of commercial banks for advances to MSE. In this paper, the relationship between lending procedures and lending norms as well as its combined effect on credit performance is examined with the help of a database retrieved from RBI annual reports, circulars, related publications and the risk-rating framework of commercial banks, so that an attempt is made to fill that gap.

3.2. Objectives

The objective of this study is to "address the relationship between lending procedures and lending norms of commercial banks and understand the individual & combined effect of lending procedures and lending norms on the lending performance of commercial banks for advances to Micro and Small Enterprises (MSE)".

3.3. Methodology

To obtain the defined objective, secondary data was collected from the published report of RBI annual report, economic survey, annual report of public sector banks (PSB), risk-rating framework of commercial banks, some and scholarly articles. The data relating to lending procedures, lending norms and lending performance of Public Sector Banks have been taken into the study. Categorically lending norms are the most important drivers of credit performance after financial sector reform. The period of study for this study spread from 1991-92 to 2021-2022, which depends on regulatory & policy guidelines, during this period especially between 1991 to 2006; there were various steps taken by the government concerning the bank finance to MSE. The regulatory guidelines issued by the RBI (for banks finance to MSME), Government of India (for MSME credit delivery) and concerned banks (for bank finance to MSME) are known as prudential norms related to the project appraisal, credit appraisal, risk assessment, credit rating score and interest rate. These prudential norms related to bank finance are treated as inputs/factors/variables/drivers of lending performance. In this study lending norms and procedure are independent variables treated as drivers and lending performance is a dependent variable known as outcome.

The execution of the lending procedure depends on the lending norms of RBI, internal factors of banks, external factors derived during the lending process based on the borrower's proposal, and unobserved variables. Similarly, the value of lending norms has a fixed value defined by the central bank. The combined impact of lending procedures and lending norms decides the lending decision of commercial banks for advances to MSMEs (MSE). Thus, the lending procedures depend on the constant parameter and coefficient parameters of external factors of the lending procedure, internal factors of the lending procedure, and unobserved variables. The lending norms depend on the constant parameter and coefficient parameters of prudential norms, internal factors of lending norms, external factors of lending norms, and unobserved variables. And, lending performance depends on constant parameter and coefficient parameters of lending procedure and lending norms, and unobserved variables.

IV. DATA ANALYSIS, RESULT AND DISCUSSION

Data analysis consists of a discussion about lending procedures and lending norms of MSME (MSE) finance and credit facilities by commercial banks to MSE. In the first part, the relationship and interdependency between lending procedure and lending norms concerned with MSE finance is discussed; and in the second part, the credit performance of commercial banks to MSE is examined.

4.1. Lending Procedure and Norms for Working Capital Loan to MSE

There are two types of finance required by MSE i.e. working capital loan (WCL) and term loan (TL). The working capital loan is the most popular mode of lending to MSE by commercial banks.

Cash credit stock, cash credit book debt, cash credit trust receipt, cash credit advance to suppliers and cash credit bill limit are popular forms of WCL. Assessment of WCL requires an appraisal of the firm, assessment of credit risk and rating, and determination of interest. The Traditional Method-I, succeeded by Traditional Method-II of WCL assessment known as the Tondon Method and Chore method respectively were popular

Table 1: Working Capital Requirement (Traditional Method)

Working Capital Items (WC)	*Holding Period (HP)*	*Creditors Periods (CP)*	*Net Holding Period NHP = HP-CP*	*Working Capital Amount (WCA) = (WCA / 365)* NHP*	*Margin Money (MM) %*	*MPBF-WCL (%)*	*MPBF WCL (100 - MM%)*
Raw material	45	15	40	(RM /365) * 40	25	75	75 % of WCA
Work in progress	15	0	15	(WIP /365)* 15	25	75	75 % of WCA
Finished goods	15	0	15	(FG/365)*15	25	75	75 % of WCA
Overhead	15	0	15	(OH/365)*15	e" 25	d"75	d"75 % of WCA
Other Working Exp.	15	0	15	(OWE/365)*15	e" 25	d" 75	d"75 % of WCA
Sundry Debtors	30	0	30	(SD/365)*30	e 50	d 50	d 50 % of WCA
Adv. to Suppliers	7	0	7	(AS/365)*7	e" 25	d" 75	d"75 % of WCA

Source: Compile by the Author

till 1997. However, after 1997 the traditional method was superseded by the turnover method known as Nayak's method for assessment of working capital loans. The WCL requirement under traditional method is explained in Table 1.

The items of working capital and corresponding constraints and benchmarks are shown. The holding periods, creditors period, and margin money are the predefined benchmarks; on that basis, the net holding period, working capital amount requirement, and maximum permissible bank finance for a working capital loan can be obtained. Under Nayak's recommendation, twenty per cent of the estimated turnover is considered for a WCL.

4.1.1. Assessment of Term Loan Assistance for MSE by Commercial Banks

The term loan assessment is based on traditional methods and discretion regarding assessment is vested with the bank. Normally banks sanction term loan on an actual cost basis which is less than or equal to 75 percent of the proposed investment in capital assets. Otherwise, it is said that the margin money of the borrower should be greater than or equal to 25 per cent of the proposed investment in permissible capital. Secondly, term loan is sanctioned on an actual cost basis which is up to 75 per cent of cost of project. Thirdly, banks sometimes sanction term loan only for tangible assets like plant and machinery, tools, equipment and buildings. Non-tangible assets such as pre-operative and preliminary expenditures, goodwill charges, technical know-how fee, franchise fee, etc. are completely or partially excluded from the part of the term loan assessment in the case of MSE. Fourthly, in some MSE cases like priority sector units, the term loan assessment is based on the actual cost basis and finance limit of more than 75 per cent of the cost of project or contrary the margin money is less than 25 per cent.

4.1.2. Prudential Lending Norms

The prudential norms of lending are a set of statutory guidelines provided by the RBI for the assessment of WCL and TL. The WCL assessment is based on traditional method and as per Nayak Committee Recommendation (turnover method i.e. maximum WCL is 20 per cent of projected gross annual turnover). The term loan assessment is based on the actual requirement for capital assets, which is up to 75 per cent (in some cases more than 75 per cent) based on quantitative assessment i.e. based on traditional methods. RBI has given independent power to assess factors/variables/risks of the project if needed as per its requirement. The bank assesses proposed project finance in different ways and sometimes rationalizes the predefined factors of procedure, norms, risk, and rating before the sanction of loans. The assessment of qualitative & quantitative indicators is discussed in Table 2.

Table 2: Financial, Management and Industry Indicators, and Risk-Rating Benchmark

Financial Indicators (Quantitative)-WCL	*Benchmark Constraints*	*Risk and Rating Score*
CR	Higher CR	Lower Risk Higher Rating
TOL / TNW	Lower TOL/TNW	Lower Risk Higher Rating
Interest Coverage Ratio	Higher PBDIT/Interest	Lower Risk Higher Rating
PAT / Net Sales	Higher PAT / Net Sales	Lower Risk Higher Rating
ROI	Higher ROI	Lower Risk Higher Rating
Invt.+ Recv./ Sales Days	Lower Invt.+ Recv./Sales Days	Lower Risk Higher Rating
Financial Indicators – TL	Benchmark Constraints	Risk and Rating Score
DER	Lower DER	Lower Risk Higher Rating
TOL / TNW	Lower TOL / TNW	Lower Risk Higher Rating
DSCR	Higher DSCR- Project	Lower Risk Higher Rating
Repayment Days	Lower Repayment Days	Lower Risk Higher Rating

Logical Parameter (Qualitative Value): Industry and Management Parameters

(i) Industry Parameters: Industry Scenario, Competition, Operational Risk, Market Risk, Regulatory Risk, Legal Risk, Labour Risk, and Env. Risk.	A = Very Good, B = Satisfactory, C = Poor
(ii) Management Parameters: Management Structure, Competence, R&D, Training, Integrity, Professionalism, Track record.	A = Very Good, B = Satisfactory, C = Poor

A=Above Par, B=At Par, C=Below Par. Qualitative Norms: A or B with not more than 2 C.
Caution: C score should not be for more than 2 factors, otherwise project will be terminated.

Risk-Rating-Interest Trade off

Safety Level	*Score obtained*	*Risk Score*	*Rating Score*	*Loan Sanctioned*	*Interest Rate*
Highest safety	above 90	Lowest Risk Score	A+	Yes	Lowest
High safety	80 to 90	Low-Risk Score	A	Yes	Lower
Moderate safety	60 to 70	Moderate Risk Score	B +	No, if the score is ≤65	Highest interest rate
Low safety	50 to 60	High-Risk Score	B	No	N.A.
Very poor	Below 60	Highest Risk Score	C	No	N.A.

Source: Compile by the Author

From Tables 1 and 2, it can be easily concluded that if any commercial bank/s ignores or compromises any of the parameters of a loan the same will lead to NPA of bank advances very quickly. There may be a large scope and chance for compromise in the factors of lending procedure and lending norms related to qualitative parameters/factors as well as quantitative factors. If a banker compromises with the stipulated constraints of lending procedure and lending norms it will create the highest degree of risk, lowest degree of safety, and lowest credit rating. The willful intention and/or inability to verify or trace window dressing in financial statements as well as incorrect project and credit appraisal, incorrect risk and rating assessment leads to higher risk value in the internal factors, external factors and unobserved variables of the lending procedure and lending norms; which result to low-quality of lending with higher probability of NPA. Thus, is it found that factors and variables of lending procedures and lending norms are the only drivers of lending performance. And, there are associations between lending procedures and lending norms as well as a proportional relationship between qualitative lending procedures and lending performance and qualitative lending norms and lending performance.

4.2. Lending Performance of Commercial Banks to MSE

The credit/lending performance of commercial banks which consists of credit to Micro and Small enterprises is discussed in Tables (3, 4 and 5). Table 3 describes the credit facility to MSE by the Public Sector Bank only during the period 1990-91 to 2003-04. Tables 4 and 5 describe the credit facilities of all commercial banks.

4.2.1. Credit Facility by Public Sector Bank to MSE

Table 3: Public Sector Bank Credit to MSE (Rs. Billion)

Year	*1990-91*	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*1997-98*	*1998-99*	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04*
PSB Credit	16.78	17.40	19.39	21.56	25.84	29.49	31.54	38.11	42.67	45.79	48.45	49.74	52.99	58.28
Growth Rate %		3.66	11.44	11.21	19.86	14.09	6.98	20.82	11.98	7.30	5.80	2.68	6.52	9.98

Source: RBI Report on Trend and Progress of Banking in India Various Issues.
Pankaj Kumar, Capital Output Ratio, IJRAR (2019)
Compile by the Author

The PSB have contributed credit facilities to MSE, is exhibited in Table 3. It has a total credit of Rs. 498.03 billion with an average annual credit of Rs. 66.40 billion. The standard deviation of 12.24 from the mean value, and the mean growth rate is

10.88 per cent per annum during 1990-2003. The correlation coefficient between credit volume and credit growth rate, $r_{psbc.psbg}$ = (-)0.261949684.

4.2.2. Credit Facility by All Scheduled Commer Banks to MSE (2004-2014)

Table 4: Scheduled Commercial Banks Lending Performance to MSE (Rs. Billion)

	SCB CREDIT TO MSME (MSE)				*Share of SCB in Credit*			*Growth of SCB in MSE Credit*			
Year	*PSB*	*PB*	*FB*	*TBC*	*PSB %*	*PB%*	*FB%*	*PSB*	*PB*	*FB*	*TBC*
2004-05	67.63	8.59	6.91	83.13	81.36	10.34	8.31	16.05	—-	—-	42.65
2005-06	82.43	10.42	8.43	101.29	81.39	10.29	8.32	21.88	21.29	22.05	21.83
2006-07	102.55	13.14	11.64	127.32	80.54	10.32	9.14	24.40	26.05	38.04	25.71
2007-08	151.14	46.91	15.49	213.54	70.78	21.97	7.25	47.38	257.13	33.10	67.71
2008-09	191.41	46.66	18.06	256.13	74.73	18.22	7.05	26.65	-0.55	16.62	19.94
2009-10	278.40	64.53	21.07	364.00	76.48	17.73	5.79	45.45	38.32	16.64	42.12
2010-11	376.63	87.86	21.54	486.02	77.49	18.08	4.43	35.28	36.14	2.21	33.52
2011-12	396.34	110.51	21.76	528.62	74.98	20.91	4.12	5.24	25.79	1.04	8.77
2012-13	459.76	130.41	22.85	613.01	75.00	21.27	3.73	16.00	18.00	5.00	15.97
2013-14	528.72	156.49	24.45	709.66	74.50	22.05	3.44	15.00	20.00	7.00	15.77
Total	2635.01	675.52	172.19	3482.71							
Mean	263.50	67.55	17.22	348.27	76.73	17.12	6.16	25.33	49.13	15.75	29.40
Std. Dev.	168.13	52.38	6.29	225.88	3.48	4.95	2.13	13.70	75.91	13.56	17.56

Source: RBI Report on Trend and Progress of Banking in India Various Issues.
Pankaj Kumar, Capital Output Ratio, IJRAR (2019)
Compile by the Author

Table 4A: Correlation Coefficient 2004-2013

	Correlation: Credit Volume				*Correlation: Credit Growth*		
	PB_C	*FB_C*	*TB_C*		*PB_G*	*FB_G*	*TBC_G*
PSB_C	.989**	.926**	.999**	PSB_G	0.602	0.471	.793**
PB_C		.910**	.993**	PB_G		0.471	.869**
FB_C			.928**	FB_G			0.546

Source: Compile by the Author

The performance of all scheduled commercial banks have participated in the credit facility to MSE is exhibited in Table 4. The PSB has total credit of Rs. 2635 billion followed by PB with Rs. 675.52 billion and Rs. 172.22 billion by FB. The average share of all three group banks (PSB, PB, FB) in credit volume to MSE is also showing proportionately to credit volume. The contribution of PSB share in total MSE credit was more than seventy-six per cent in total credit followed by PB with seventeen per cent and FB with six per cent. In case of the average growth rate of credit flow to MSE, the average growth of PB was more than forty-nine per cent followed by PSB with more than twenty-five per cent and FB with sixteen per cent; however average growth rate of all commercial banks in credit flow to MSE was more than twenty-nine per cent. The standard deviation of the growth rate of PB was very high may be due to very high dispersion in the years 2007-08 and 2008-09 from the average value. In case of credit volume, the standard deviation of PSB was high from the mean but not biased. In case of share of credit flow, the standard deviation is very low and unbiased. The correlation coefficient of credit volume and credit growth is exhibited in Table 4A.

The value of the correlation coefficient of credit volume i.e. $r_{psbc.tbc}$, $r_{pbc.tbc}$, $r_{fbc.tbc,}$ $r_{psbc.pbc,}$ $r_{psbc.fbc,}$ $r_{pbc.fbc.}$ are significant at 0.01 percent. The correlation coefficient of credit growth of $r_{psbg.tbcg}$, $r_{pbg.tbcg}$ are statistically significant at 0.01 percent.

4.2.3. Credit Facility by All Scheduled Commer Banks to MSE (2014-2023)

Table 5: Scheduled Commercial Banks Lending Performance to MSE (Rs. Billion)

	SCB CREDIT TO MSME (MSE)				*Share of SCB in Credit*			*Growth of SCB in MSE Credit*			
Year	*PSB*	*PB*	*FB*	*TBC*	*PSB %*	*PB%*	*FB%*	*PSB*	*PB*	*FB*	*TBC*
2014-15	629.18	190.92	26.65	846.75	74.31	22.55	3.15	15.00	20.00	7.00	15.77
2015-16	717.26	225.28	29.31	971.85	73.80	23.18	3.02	14.00	18.00	9.98	14.77
2016-17	810.51	277.09	33.42	1121.02	72.30	24.72	2.98	13.00	23.00	14.02	15.35
2017-18	956.4	343.6	37.43	1337.43	71.51	25.69	2.80	18.00	24.00	12.00	19.30
2018-19	2203.7	765	91.82	3060.69	72.00	24.99	3.00	130.42	122.64	145.31	128.85
2019-20	986.92	303	26.32	1315.89	75.00	23.03	2.00	-55.22	-60.39	-71.34	-57.01
2020-21	2557.05	784	68.19	3409.4	75.00	23.00	2.00	159.09	158.75	159.08	159.09
2021-22	1453.42	421	38.25	1912.39	76.00	22.01	2.00	-43.16	-46.30	-43.91	-43.91
2022-23	3053.63	936	81.43	4071.51	75.00	22.99	2.00	110.10	122.33	112.89	112.90
Total	13368.07	4245.89	432.82	18046.93							
Mean	1485.34	471.77	48.09	2005.21	73.88	23.57	2.55	40.14	42.45	38.34	40.57
Std. Dev.	896.64	279.29	25.35	1197.75	1.58	1.25	0.53	75.64	76.33	81.73	75.91

Source: RBI Report on Trend and Progress of Banking in India Various Issues. Pankaj Kumar, Capital Output Ratio, IJRAR (2019)
Compile by the Author

Table 5A: Correlation Coefficient (20014-2023)

	Correlation Coefficient: Credit Volume				*Correlation Coefficient: Credit Growth*		
	PB_C	*FB_C*	*TB_C*		*PB_G*	*FB_G*	*TBC_G*
PSB_C	.992**	.906**	.999**	PSB_G	.996**	.997**	1.000**
PB_C		.947**	.996**	PB_G		.992**	.998**
FB_C			.920**	FB_G			.997**

Source: Compile by the Author

The performance of all scheduled commercial banks in the credit facility to MSE is exhibited in Table 5. PSB have total credit of Rs. 13368 billion followed by PB with Rs. 4245.89 billion and Rs. 432.82 billion by FB. The average share of all three group banks (PSB, PB, FB) in credit volume to MSE is also showing proportionately to the credit volume. The contribution of PSB share in total MSE credit was more than 73.88 per cent in total credit followed by PB with 23.57 per cent and FB with 2,55 per cent. In the case of the average growth rate of credit flow to MSE, the average growth of PB was more than 40.14 per cent followed by PSB with 42.45 per cent and FB with 38.34 percent; however average growth rate of commercial banks in credit flow to MSE was 40.57 percent.

The standard deviation of the growth rate of PB was very high may be due to very high dispersion in some of the years from the average value, although this dispersion is only due to the high flow of credit to MSE during 2018-19 and 2020-21 onwards may be due to Covid-19 crisis also. In the case of credit volume, the standard deviation of PSB was high from the mean but not biased. In the case of share of credit flow, the standard deviation is very low and unbiased. During the Covid-19 crisis periods union government has given credit flow to MSE (PM-SVNidhi, PM-Vishwakarma and PM-MUDRA) a larger financial push.

The correlation coefficient of credit volume i.e. $r_{psbc.tbc}$, $r_{pbc.tbc}$, $r_{fbc.tbc}$, $r_{psbc.pbc}$, $r_{psbc.fbc}$, $r_{pbc.fbc.}$ are significant at 0.01 percent. The correlation coefficient of credit growth of $r_{psbg.tbcg}$, $r_{pbcg.tbcg}$, $r_{fbcg.tbcg}$, $r_{psbcg.pbcg}$, $r_{psbcg.fbcg}$, $r_{pbcg.fbcg.}$ are statistically significant at 0.01 percent.

Thus, from the above analysis, it is observed that during 1990-91 to 2003-04 the credit trends of PBS was very good which is only due to the absence of PB and FB in credit contributions to MSE. But from 2004-05 to 2013-24 the contribution of PB and FB was seventeen per cent and six percent respectively which is at cost of deduction in the share of PSB from a hundred percent to seventy-seven per cent. And the share of PB increased to twenty-four per cent while PSB's share decreased to seventy-four percent.

V. CONCLUSION

It is concluded that if any commercial bank/s ignores or compromises any or more parameter/s required in the assessment of loans will travel to NPA very quickly. There may be a large scope and chance for compromise in the factors of lending procedure and lending norms related to qualitative parameters/factors to a larger extent and quantitative factors to a smaller extent. It is found that factors and variables of lending procedures and lending norms are the only drivers of lending performance. And, there are associations between lending procedures and lending norms as well as a proportional relationship between qualitative lending procedures and lending performance and qualitative lending norms and lending performance. The "Public Sector Banks contributed credit facility to MSE of Rs. 498.03 billion with an average annual credit of Rs. 66.40 billion and an average growth rate of 10.88 per cent per annum during 1990-2003". From 2004 onward to 2013, the performance of all scheduled commercial banks which consist of Public Sector Banks (PSB), Private Sector Banks (PB) and Foreign Banks (FB) have played an important role in the credit facility to MSE. The PSB has the highest level of credit followed by private banks and foreign banks with an average growth rate of commercial banks' credit of twenty-nine per cent during this period. The credit flow for the period 2014-15 to 2022-23 was much higher than the previous ten years. The credit volume of Public Sector Banks (PSB for Rs. 13368 billion followed by PB with Rs. 4245.89 billion and Rs. 432.82 billion by FB. The average growth rate of credit flow to MSE by the commercial banks was 40.57 per cent per annum. The increase in the share of PB is showing the efficiency of the lending procedures and norms for lending performance are in proportional order, while in the case of PSB, the efficiency of lending procedures and norms for lending performance are not in proportional order. This proved that lending procedures and lending norms are drivers of the lending performance of commercial banks for advances to MSE.

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Pankaj Kumar: Conceptualization, Methodology, Analysis, Review, Writing Original Draft.

Sonia Kamboj: Data Curation, Analysis, Review, Editing, Referencing.

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