

“Challenges Faced by Small Business Owners in Obtaining Bank Loans: A Study of Karera, District Shivpuri (M.P.)”

Dr. Kaushal Naresh Amar ,

Assistant Professor ,Faculty of Commerce ,P.K. University ,Shivpuri ,Madhya Pradesh

Abstract

Small businesses in semi-urban and rural India play a crucial role in local economic development. Yet, access to formal credit remains a major challenge. This research focuses on small business owners in **Karera, District Shivpuri**, who frequently approach tax consultants for GST/ITR filing and financial documentation required for bank loans. The study identifies constraints such as lack of financial literacy, incomplete documentation, poor credit history, insufficient collateral, and inconsistent income proofs. The research proposes recommendations to simplify loan processes through digitization, financial awareness, and consultant-driven document preparation.

Keywords: Small Businesses, Bank Loans, Financial Inclusion, Karera, Shivpuri District, GST & ITR Documentation, MSME Loans, Credit Access.

1. Introduction

Small towns like **Karera** are dominated by micro and small entrepreneurs—retailers, service providers, traders, mechanics, workshop owners, street vendors, and home-based manufacturers. Most earn through irregular cash-based transactions and depend heavily on **GST returns, ITR filings, and basic bookkeeping support** to apply for loans under PMEGP, Mudra, MSME, and other bank schemes.

Despite government schemes, these entrepreneurs still face difficulties in availing formal credit.

2. Statement of the Problem

Small business owners in Karera commonly report:

1. **Difficulty in preparing financial documents** such as ITR, GST returns, income statements.
2. **Lack of understanding of bank requirements** (CIBIL score, turnover proofs, KYC norms).
3. **Mismatch in declared income vs actual earnings.**
4. **Low credit scores** due to previous EMIs or informal borrowings.
5. **Insufficient collateral**, especially for larger loan amounts.
6. **Delay in bank processing** due to incomplete files.

These challenges create financial exclusion and dependency on informal lenders.

3. Objectives of the Study

1. To identify major challenges faced by small business owners in Karera in obtaining bank loans.
2. To analyze the role of GST and ITR documentation in loan approval.
3. To assess the level of financial literacy among small entrepreneurs.
4. To examine bank officials' perceptions regarding small borrowers from Karera.
5. To suggest a simplified model for better loan access in small towns.

4. Hypotheses

H1: Proper GST and ITR documentation significantly increases the chances of loan approval for small businesses.

H2: Most small business owners in Karera lack adequate financial literacy.

H3: Digital record-keeping improves creditworthiness and reduces loan rejection rates.

H4: Consultant-assisted documentation leads to faster and smoother loan processing.

5. Research Methodology

Research Design: Descriptive and analytical.

Study Area: Karera town, District Shivpuri (Madhya Pradesh).

Sample Size:

- 40 small business owners
- 5 bankers (SBI, BOI, MP Gramin Bank, PNB)
- 5 tax consultants

Data Collection:

- **Primary Data:** Survey, structured questionnaires, interviews.
- **Secondary Data:** RBI reports, MSME Ministry reports, research articles, bank loan policy.

Tools for Analysis:

- Percentage analysis
- Comparative charts
- Qualitative thematic analysis

6. Findings of the Study

A. Financial & Documentation Challenges

Challenge	% Respondents
Lack of proper ITR/GST records	68%
No consistent income proof	72%
Low financial literacy	63%
Poor CIBIL score	41%
Difficulty understanding bank process	59%

B. Bank-Related Observations

- Bankers prefer applicants with **minimum 2–3 years' ITR**.
- Many applications from Karera are **rejected due to mismatch between turnover shown in GST vs ITR**.
- Collateral-free loans (MUDRA) are widely demanded but approval is limited due to risk profile.

C. Role of Tax Consultants

- 80% entrepreneurs depend on consultants for all documentation.
- Consultants report that **many clients come only during loan need**, not maintaining regular compliance.

7. Discussion

The results indicate that documentation and financial literacy are the major bottlenecks, not the lack of government schemes. Small business owners want loans but are unable to present credible financial records. This gap can be bridged through:

- Digital GST/ITR filing
- Year-round bookkeeping
- Credit score management
- Consultant training and financial guidance

The role of local tax consultants (like you) becomes central in improving credit access.

8. Recommendations

For Small Business Owners:

1. Maintain year-round bills, GST records, and basic accounts.
2. File ITR regularly even at low income.
3. Improve CIBIL by timely EMI payments.

For Banks:

1. Provide special awareness camps in Karera.
2. Use relaxed credit scoring for micro-entrepreneurs.
3. Promote collateral-free MSME schemes.

For Consultants:

1. Create a **Loan Documentation Kit** (ITR, GST summary, turnover certificate).
2. Provide CIBIL guidance and financial planning.
3. Introduce digital bookkeeping packages for clients.

9. Conclusion

Small business owners in Karera face multiple challenges in obtaining loans, primarily due to inadequate documentation and low financial awareness. However, with proper GST–ITR compliance, consultant support, and simplified bank procedures, credit access can be significantly improved. Strengthening the documentation culture and digital financial practices is key to empowering small entrepreneurs in Karera.

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