



Empowering Growth: The Role of Commercial Banks in Financing Small and Medium Enterprises (SMEs) in India

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Abstract

This research explores the pivotal role played by commercial banks in facilitating the financial growth and sustainability of Small and Medium Enterprises (SMEs) in India. SMEs form the backbone of the Indian economy, contributing significantly to employment generation and economic development. This study employs a mixed-methods approach, combining qualitative insights and quantitative analyses, to comprehensively examine the mechanisms through which commercial banks support and finance SMEs. The qualitative component of the study involves interviews, case studies, and expert opinions to capture nuanced perspectives on the challenges and opportunities faced by SMEs in accessing financial services from commercial banks. Simultaneously, quantitative data analysis will be employed to identify trends, correlations, and statistical patterns associated with the financing of SMEs. Various aspects of the role of commercial banks in SME financing will be investigated, including credit facilities, financial products tailored for SMEs, risk assessment, and the impact of banking support on the growth and sustainability of small businesses. The study aims to provide insights into the strategic implications of commercial bank interventions for the SME sector in India. The findings from this research are anticipated to offer valuable insights for policymakers, banking professionals, and SME entrepreneurs. By understanding the intricacies of SME financing by commercial banks, stakeholders can refine strategies, improve financial inclusion, and contribute to the robust development of small and medium enterprises, fostering economic growth in India. This study serves as a foundation for informed decision-making and future research within the realm of SME financing by commercial banks.

Keywords: Commercial Banks, SME Financing, Economic Development, Credit Facilities, Financial Inclusion, Business Growth, Entrepreneurship, Indian Economy.

1. Introduction of SME

SME stands for Small and Medium Enterprise. These are responsible for major contribution to the Gross Domestic Product (GDP) of India hence is commonly known as backbone of the GDP growth in India. The SME sector has shown tremendous growth in India and thus contributed positively to the overall health of the Indian economy. However, there are some key factors that need to be taken into account for the further growth and development of the SME sector in India. Post globalization SME has further growth opportunities than ever before due to an increased market size and greater diversification opportunities across different sectors of the economy. In today's context the Indian economy is

moving at a fast pace and the Indian businessmen have vast opportunities to progress in industries like manufacturing, specially sports goods industry, food processing, textile & garments, retail, IT and service sector. The small enterprise sector has been responsible for creating large scale employment opportunities across different industrial sectors and has thus also been able to reduce the rural urban divide by bridging the gap between the haves and the have not's thus leading to overall even growth of economy. Certain industrial produce in the sector has been prominently part of the export basket of a country in the last few decades, although the total exports of our country have been dismal. The SME



sector is at the initial stage of its expansion and with further improvement in technology, there is every possibility that this sector will be able to contribute immensely to the overall growth of the Indian economy. The SME sector, as per the Indian government's industrial policies, has been designated as the priority sector for the growth of the Indian economy. But this sector is facing a huge crunch in raising adequate financial resources from within and outside. Therefore, the primary challenge for the SMEs today is to raise money particularly non-debt finance and to some extent non-conventional financial products such as commercial borrowings, private equity, bank financing and factoring etc [1].

1.1 Commercial Banks

Commercial Banks structure is a significant part of the country's financial institution system among the organized institutions in the banking sector, the Commercial Banks are the most established foundations with an extensive network of branches. Commercial Banks are those profit seeking institutions which accept deposits from general public and advance money to individuals like household, entrepreneurs, businessmen etc. with the prime objective of earning profit in the form of interest and commission. The operations of all these banks are regulated by the Reserve Bank of India. Therefore, the modern banks carry out numerous functions apart from their main task of banking. They give secure protection for the investors who are willing to keep their reserves with it and make profit also. Other facilities are also provided to the proprietors and professionals, such as the cheques, Demand draft, Debit card and Credit cards, thus making the process of expenditure and revenue easier whereas at the same time acting as the care taker of their money. They also give finance to the public by allowing overdraft and loan services by providing credit. A bank is an organization where obligations (referred to as bank deposits) are regularly acknowledged in definite settlement of other people groups' obligations [2].

2. Research Design

Research design is a conceptual framework within

which the study will be structured. It is an outline of the research work which is going to be done. The design used in this study is descriptive research design. It is suitable to apply this method as this research explains the relationships between different variables & draws conclusion from them.

3. Sample Design

The study was conducted using the primary and secondary data. The secondary data was compiled from the office records of Statistical booklet of Hyderabad and Ranga Reddy district-published by Department of Statistics, Hyderabad and Ranga Reddy, and data of District Industrial Centre, Federation of Sports Goods and Commercial Banks. The primary data was collected for the purpose of investigation of facts at ground-level. The investigation was done using the methods of questionnaire and personal interviews.

Sample Size: 200 (100 SMEs and 100 Branches of Commercial Banks) Number of Sports good manufacturing units: approximately 1150.

3.1 Sampling

The study was based upon the investigation, which took place using 'Convenience Sampling'. The investigation was done with the help of sample size of 200, out of which 100 different Commercial Banks branches were investigated for the purpose. There was an officer from each branch i.e. branch manager/ loan and advance manager who was asked questions through an exhaustive questionnaire. The next part of investigation was done at the SMEs. A total of 100 factory outlets were investigated, out of which 39 Micro, 23 Small and 18 Medium size outlets were randomly selected for the purpose. From each outlet, one officer i.e. Manager Finance or Owner were asked to fill the questionnaire. The sample size of the study was 200 out of this 100 for SMEs and 100 for commercial banks. While analyzing the SMEs samples it was observed that 80 respondents had provided complete details while remaining 20 respondents either provided incomplete data or did not respond and hence they were not included in the final analysis. Similarly, for Banks the sample size was 100, but 74 respondents provided complete and comprehensive data while



the rest 26 bank respondent showed unwillingness in sharing their data due to fiduciary clause, hence they were not included. In conclusion SME data found relevant for research was 80 respondents and in case of banks it was 74 respondents [3].

4. Data Analysis Tool

The data was analyzed with the help of Statistical Package for the Social Services (SPSS) software. Chi Square test is used to analyze the data. Most of the questions have qualitative variable and measured on ordinal scale from 1 to 5 the basic objective was to check the hypothesis which was related to independence of assumptions and it is used to determine whether there is significant association between two variables. Pie chart and bar diagrams were drawn for each question to represent the proportion of respondents in each category. Chi Square test is used to analyze the data for banks as well as sport manufacturing SMEs. There are a lot of factors apart from funds which affect the development of SMEs but in this research we are going to mainly focus on credit aspects in the framework of overall growth and expansion of SMEs. We shall discuss the credit aspect of role of Commercial Banks in financing SMEs. Questionnaire has been designed to measure the issues and challenges faced by SMEs and banks with respect to financing and other variables [4].

$$\chi^2 = \frac{(\text{Observed Value} - \text{Expected Value})^2}{(\text{Expected Value})}$$

$$\chi^2 = \text{Test Statistics}$$

$$\chi^2 = (f_0 - f_e) f_e$$

f_0 = Observed Frequencies f_1 = Expected Frequencies

Degree of freedom (df) = n-1 where n is the number of classes

5. Limitations of the Study

Just like other studies, this study also has some limitations. Though this research was conducted carefully, I am conscious of its limitations and inadequacies. The study was organized into two major parts one about SMEs and the other about Commercial Banks. Although the sample size of the research was small, the response was good and only 15-20% respondents were not represented. Since the

questionnaire was designed to measure the issues and challenges of SMEs in financing and role of Commercial Banks in the development of SME's.

- The study majorly focuses on credit aspects in the context of the overall development of SMEs, although other non-credit aspects are similarly vital for the expansion of the SMEs sector. The credit aspect of role of Commercial Banks in financing SME was mainly explored.
- Bankers were not much interested in disclosing their financing information and data.
- Permission of the leading banks during collection of data from banks was also a constraining factor.
- SMEs were scared to disclose their financial data and most of them denied providing any information.
- Due to resource limitations and the scope of the study being sports goods manufacturing sector, the size of the sample was moderately small.
- It can be said that there is reliability in the analysis and interviews of the respondents collected from SMEs and bankers might be biased to some extent

6. Suggestions

- Export incentives should be provided by the Government of India.
- Special Economic Zone (SEZ) must be set up in Hyderabad and Ranga reddy district.
- Development of training facilities for SMEs. Training modules for the existing and new entrepreneurs for the skill and knowledge technological upgradation should be created.
- Tax rebate (the excise duty was imposed on sports goods in the 2011-12 budgets) and subsidy facility required from the Government of India. Special attention needs to be paid to the excise duty on sports.
- Marketing assistance is required for sports goods industry.
- Awareness programs on the government schemes and tax structures, and policies should be conveyed.
- Government inland consumer department should be in Hyderabad and Ranga reddy.



- Government assistance is required in the development of technologies for the improvement of quality raw material and products
- Funding of additional working capital amenities is required to overcome the lack of working capital faced by small units.
- State level inter-organizational team should be set up in all the district offices of the division of banking industry and progress to be monitored by the Reserve Bank of India to ensure that are well managed the Commercial Banks, state government, central and state level financial institutions.
- The district industries center should play a major role in maintaining all records about the registration of SMEs and other funding information. It has been found through field survey in Hyderabad and Ranga Reddy city that the center is not functioning well and does not maintain records of SMEs. The staff members are not regular. The state government has to look into this matter and should take appropriate action to resolve the issues [5].

Conclusion

In the last few years, the SME sector has become one of the driving factors of growth and development for the nation's economy and contributes an important business opportunity for Commercial Banks and other Financing institutions. Access to sufficient and timely credit from the Commercial Banks or other financial institutions is still a crucial constraint faced by small and medium enterprise in India. Alternative sources of funding can, therefore, move in and help SMEs in their development and expansion. Approach to finance is necessary for recovering SME competitiveness, as SMEs have been investing in modern technologies, skills and innovation for growth and development. The SME segment will turn into extra competitive and well-organized sector and contribute further to the economic development of our country. This study concluded that SMEs are still facing some challenges in raising funds from Commercial Banks due to some difficulties in availability of funds,

delay in delivery of loan and lack of other resources like technology, infrastructure and low cost labor respectively. The use of advanced technology has also enabled the growth of SME sector. The coming of online business directories and trade portals has contributed to a vast database of manufacturers, sellers and buyers all at one click of a button. Minimum investment is required to start and maintain these units. The SMEs sector today is majorly funded by the government agencies and Commercial Banks. Indian SMEs are being funded by local fund providers and foreign funds. Nowadays, the SMEs are major contributors to domestic production and also add to the export basket of the country. Though the SME sector has started to flourish and is deemed to grow further in times to come but care has to be taken to tackle the challenges that the SME sector will have to face. Though the SME sector is evenly spread in the urban areas, proper infrastructure has to be augmented in the rural areas as well so that the spread of SME's in rural areas can happen. Though the SME units are performing efficiently and effectively, but there seems to be insufficient information with regard to the basic inputs like availability of the raw materials, skilled manpower, proper machinery and tools. There is further need to enhance research and development facilities and seek ways to develop the SME's in both the urban and rural areas.

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