

A Study on Contribution of Commercial Bank to Small Scale Industry

Dr. H. Kavitha

Assistant Professor,
PG & Research Department of Commerce,
Bishop Heber College,
Tiruchirappalli, Tamil Nadu.

Abstract

The main objective of this study is to scrutinize the contribution of commercial bank's loan to small scale enterprises on the growth of the Indian economy. Commercial banks frequently provide short term loans and in some cases medium term financial assistance also to small scale units. The majority of the commercial banks have got specialized units in their administrative structure to take care of the financial needs of the small scale industrial units. The Central Bank and during the issuance of legislation through which commercial banks are guided to support such projects and increase the proportion of funding at the same time to protect the rights of depositors, and thus, achieve the goals of all parties.

Keywords: *Commercial Bank, Small Scale Enterprises.*

Introduction

The commercial bank makes money by lending to individuals and businesses. It gets the currency to lend from deposits patrons make in the bank. An investment bank, on the other hand, can clutch stocks and bonds and may offer those to investors in the marketplace. Small businesses replaced on commercial banks for a variety of services that make it easier to do business and grow a company. To acquire a loan from a commercial bank for a small business, you will need to have a track record. You must prove sales growth, assets and some reasonable sales projections for your company. Businesses, small businesses are the fastest-growing part of the economy, as of publication. Commercial banks will vie for your business by gift a variety of interest rates and loan lengths and by reducing the amount of collateral they require to secure a loan. According to the Wall Street Journal, small-business banking is not simply a matter of hard numbers but depends heavily on the relationship between the loan officer and the business owner. In short, the function of commercial banks with small businesses has become increasingly personal and relationship-oriented.

Over time, small & medium size enterprises had received little attention whereas they provide employment for approximately triple the number engaged in large scale manufacturing as well as playing their role of vital importance to our developing economy. There have been numerous opinions and write-ups on the roles banks should play in financing and advising the small and medium-sized enterprises since the federal government shift in policy with a greater emphasis on small & medium enterprises in the achievement of self-reliance. Small and Medium Enterprises (SMEs) have been recognized as a driving force for economic growth and development in any nation. Empirical pieces of evidence have shown that they contribute to employment, poverty alleviation and increase productivity level in a nation. In recognition of the role of SMEs in the economic growth process of the Indian government has taken concerted efforts to foster the growth of SMEs and also develop entrepreneurship. SMEs are of necessity to a nation's industrialization process. One leading way of promoting SMEs is by having easy access to finance. Afolabi (2013) noted that a major gap in the Indian industrial development process in the past years has been the absence of a strong and virile SME sector attributable to the unwillingness of banks, especially commercial banks to lend to the sector.

Classification of Commercial Banks

- **Scheduled banks:** Banks which have been included in the Second Schedule of RBI Act 1934. They are categorized as follows:
- **Public Sector Banks:** Those banks in which majority of stake are held by the government. Eg. SBI, PNB, Syndicate Bank, Union Bank of India etc.
- **Private Sector Banks:** Those banks in which majority of stake are held by private individuals. Eg. ICICI Bank, IDBI Bank, HDFC Bank, AXIS Bank etc.
- **Foreign Banks:** The banks with Head office outside the country in which they are located. Eg. Citi Bank, Standard Chartered Bank, Bank of Tokyo Ltd. etc.
- **None scheduled commercial banks:** Banks which are not included in the Second Schedule of RBI Act 1934.

The Role of Commercial Banks in Small Scale Business

The small-scale business has been an important element in this country's drive towards a self-reliant economy. This is based on the legalization that small scale enterprises are attractive worldwide hence; it is a boulevard for reducing the rate of unemployment in the country and thereby contributing to the Gross Domestic Product (GDP) of the nation. In developed countries

today, technological advancement was due to the establishment of small-scale businesses and industries. Small-scale enterprises are careful as a pivot for technological impression and self-reliance of any nation. In the commercial world, there are various kinds of business undertakings. These business actions range from private enterprise to public corporation.

Review of Literature

Bandlamudi Kalpana (2017) says that banks have always played an important position in the country's economy. They are performing not only as of the curator of the wealth of the country but also as resources of the country, which is essential for the economic development of a nation. The broad role of commercial banks is to offer financial services to the general public and business, ensuring economic and social firmness and sustainable growth of the economy. Commercial banks regularly provide short term loans and in several cases medium-term financial assistance also to small scale units. The majority of the commercial banks have get specialized units in their administrative structure to take care of the financial needs of the small scale industrial units. As we know that Agriculture is the backbone of the economy of any country like India. Research is based on secondary data. This provides the findings on commercial banks and how it helps in economic development. The main objective of the study is to gravely examine and analyze the role of commercial banks on economic growth in India.

Objective of the Study

- ❖ To identify the main obstacles that face small scale enterprises concerning procurement of loans from commercial banks.
- ❖ To examine the measure at which commercial banks loans and advances have contributed to small scale enterprises development in the study area.

Research findings

Making technology available and affordable the system of making available the results of research institutions in new production techniques to SMEs through extension outreach for popularization, demonstration and adoption should be further strengthened. This will lessen the cost of distribution, production, and marketing which resolve raise competitiveness, allow expansion and create more jobs.

Methodology

The methodology of the study comprises of the population, data collection, techniques of analysis, and model specification

Data Collection

The study is based primarily on secondary data obtained from the Central Bank Statistical Bulletin. The data collected are the value of a Gross domestic product as a proxy for the measurement of the economy and the amount of money contributed to small scale enterprises by bank loan for the period studied. The gross domestic product was deflated to obtain the real GDP.

Conclusion

This study has attempted to examine the impact of the loan of commercial banks to small scale enterprises on the growth of the Indian economy. Based on the findings above, we hereby conclude that the growth of the Indian economy does not depend on the loan from commercial to small scale enterprises. This is attributed to the facts that the small scale operators does not have access to credit which is a major problem to small scale enterprises in Indian since the conventional financial institutions have not been able to meet their recognition needs. However, contact to capital or finance is necessary but not an adequate condition for successful operation. If one has the complete funds in the world and does not have the capacity to manage that fund and does not have the necessary in order as to the money would go down the drain. Government must encourage small scale enterprise through their micro credit scheme to give yielding loans. Government should also re-introduce small commerce credit scheme so as for the beneficiary to use them to run the small scale enterprises.

Reference

- ❖ Adegbeni, B.O, Fasanya, H, & Abdulrahman, H.D (2013), “Small and medium scale enterprises financing and economic growth in Nigeria”, *European Journal of Business and Management*, Vol. 5 (4), pp.130-136
- ❖ Adeyemi, S. L. and Badmus, A. L. (2001), “An empirical study of small scale financing in Nigeria”, *Journal of Unilorin Business School*, Vol.1 (1).
- ❖ Bandlamudi Kalpana (2017), “Role of Commercial Banks in the Economic Development of India”, *International Journal of Management and Applied Science*, ISSN: 2394-7926 Volume-3, Issue-4, pp. 1-4.
- ❖ John-Akamelu Chitom Racheal (2018), “The Role Of Commercial Banks in Financing Small & Medium Size Enterprises in Nigeria”, *European Journal of Business, Economics and Accountancy* Vol. 6, No. 3, ISSN 2056-6018, pp. 1-23.

- ❖ Govt. of India (1991) Report of the Committee on Financial System, Ministry of Finance, December.
- ❖ Panda, Jaganath and Dash, R. K. (1991). Development Banking in India. New Delhi: Discovery Publishing House.
- ❖ Schmitz, H. (1982), “Growth constraints on small scale manufacturing in developing countries: A critical review”, World development, Vol. 10 (6), pp. 429 – 450.
- ❖ Stanley, E. and Morse, R. (1965), Modern small-scale industry for developing countries. McGraw-Hill.