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Role of Banking Finance in The Growth and Sustainability of MSME's In India: An Empirical Study

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Abstract:

Micro, Small and Medium Enterprises (MSMEs) play an important role in the development of the Indian economy. They create large employment opportunities, support local production, and encourage entrepreneurship. However, many MSMEs face difficulties in getting enough financial support for starting, running, and expanding their businesses. Banks are one of the main sources of formal finance for these enterprises. This study examines how banking finance supports the growth and long-term sustainability of MSMEs in India. It focuses on the availability of bank loans, ease of getting credit, interest rates, and the challenges faced by business owners during the loan process. The study is based on both primary data collected from MSME owners and secondary data from official reports. The findings show that proper and timely bank finance helps businesses increase sales, create more jobs and maintain stability during difficult times. At the same time, issues like documentation requirements and collateral security still create obstacles. The study suggests that improving financial awareness and simplifying loan procedures can strengthen MSME development and contribute to overall economic growth in India.

Keywords - MSMEs, Banking Finance, Financial Sustainability, Bank Credit, Priority Sector Lending, Economic Development, Financial Inclusion

Introduction

Micro, Small and Medium Enterprises (MSMEs) play a very important role in the growth and development of the Indian economy. These enterprises include small factories, service providers, traders, repair units, startups, and many other small businesses. They create employment opportunities for a large number of people, especially in rural and semi-urban areas. MSMEs also help in reducing poverty and improving the standard of living by generating income and encouraging self-employment.

In India, many people start small businesses with limited capital. However, running and expanding a business requires continuous financial support. Business owners need money to purchase raw materials, pay wages, buy machinery, maintain stock, and manage daily expenses.

Since most MSMEs do not have enough personal savings, they depend on banks and other financial institutions for loans.

Banking finance plays a key role in supporting these businesses. When banks provide timely and adequate loans, MSMEs can increase production, improve product quality, adopt new technology and expand into new markets. Proper financial support also helps businesses survive during difficult times such as economic slowdown or unexpected losses.

At the same time, many MSMEs face problems while applying for bank loans. Lengthy procedures, requirement of documents, collateral security and delay in loan approval create difficulties for small entrepreneurs. Some business owners are not fully aware of different loan schemes and government support programs. These challenges sometimes limit the growth of MSMEs.

Therefore, it becomes important to study how banking finance actually affects the growth and long-term stability of MSMEs. This research aims to understand whether bank loans truly help businesses grow, create more employment and remain stable over time. The study also tries to identify the problems faced by MSMEs in getting financial support and suggests ways to improve the system.

Review of Literature:

1. Importance of Banking Finance for MSMEs

Several studies have underscored the pivotal role of formal financial systems in supporting Micro, Small, and Medium Enterprises (MSMEs). Ayyagari, Demirgüç -Kunt & Maksimovic (2011) found that access to bank credit significantly enhances firm growth, productivity, and employment generation. Their research showed that enterprises with better access to formal banking credit performed better in innovation and scale expansion compared to firms relying solely on informal sources.

In the Indian context, Singh & Sharma (2018) highlighted that MSMEs with bank credit access reported higher revenue growth and were more resilient during economic downturns. Their findings argued that credit availability allowed MSMEs to invest in working capital, technology adoption, and market diversification.

2. Banking Finance and MSME Sustainability

Sustainability in MSMEs refers not just to growth but also to long-term viability. Financial inclusion and bank financing influence sustainability by reducing dependence on informal borrowings. Bhowmik & Chakrabarty (2020) observed that MSMEs receiving

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institutional finance displayed greater financial discipline, disciplined credit repayment behaviour, and stronger balance sheets.

In a field survey of North Indian MSMEs, Rao & Rao (2019) reported that firms with structured bank loans were more likely to adopt environmentally sustainable practices, invest in digital platforms, and comply with regulatory reforms — indicators of long-term operational sustainability.

3. Challenges in Accessing Banking Finance

Despite its benefits, several researchers have documented persistent barriers to MSME financing. Chavan (2017) highlighted issues like stringent collateral requirements, high interest rates, and complicated documentation as major deterrents for MSMEs seeking bank loans.

Kumar & Verma (2021) added that lack of credit history and financial transparency often results in credit rationing. Many MSMEs rely on informal credit or microfinance, which tends to be costlier and less reliable, exacerbating growth constraints.

4. Influence of Government Policies and Banking Schemes

Government interventions such as the **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)**, Priority Sector Lending (PSL) norms, and interest subvention schemes have significantly improved credit flow to MSMEs. The World Bank (2022) reported that credit guarantee schemes led to a measurable increase in loan approvals for small enterprises. Bhattacharya & Sahoo (2023) pointed out that the effectiveness of these schemes is often limited by implementation bottlenecks, awareness gaps among entrepreneurs, and limited reach in rural and semi-urban areas

Research Gap:

1. Limited Empirical Evidence on Sustainability Outcomes

Most existing studies establish the **relationship between bank finance and growth indicators** (e.g., sales, employment), but **few quantitatively assess sustainability outcomes** especially long-term operational resilience, environmental practices, and financial stability over time.

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2. Inadequate Focus on Regional and Sectoral Differences

Existing literature often treats MSMEs as a homogeneous group. However, **access to bank finance varies significantly across regions, sectors (manufacturing vs services), and enterprise age/size categories**.

3. Informal vs Formal Credit Linkages

While challenges of formal bank finance are well documented, **the dynamics of MSMEs transitioning from informal credit to institutional banking and its effect on long-term sustainability is under-researched**

Objectives of the Study:

1. **To understand how bank finance helps MSMEs grow.** This objective focuses on knowing whether bank loans help small businesses increase their sales, production, and overall business activities.
2. **To examine how easily MSMEs can get loans from banks.** This objective aims to study the loan process, required documents, and whether small business owners face difficulties while applying for bank finance.
3. **To study how bank finance supports the long-term stability of MSMEs.** This means understanding whether bank loans help businesses survive during difficult times and continue their operations smoothly.
4. **To identify the common problems faced by MSMEs in getting bank loans.** This objective tries to find out issues like delays, high interest rates, collateral requirements, and lack of awareness about loan schemes.

Scope of the Study:

This study focuses on Micro, Small and Medium Enterprises (MSMEs) operating in India. It mainly examines how bank finance supports these businesses in their growth and long-term survival. The study covers both manufacturing and service sector enterprises, as they form an important part of the MSME sector.

The research looks at different types of financial support provided by banks, such as business loans, working capital loans, and loans for purchasing machinery or expanding

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(Print) 2320 – 8341

operations. It also studies how easily MSME owners can access bank finance and what challenges they face during the loan process.

The study includes both primary information collected from business owners and secondary information from official reports and published data. It focuses on understanding the practical impact of bank finance on business performance, including sales growth, employment generation, and stability during difficult situations.

However, the study is limited to selected MSMEs and may not cover every region of India. It mainly concentrates on the role of banking finance and does not deeply examine other sources of finance such as informal lending.

Significance of the Study:

This study is important because MSMEs play a major role in the growth of the Indian economy. They provide employment to many people and support local development. However, many small businesses struggle to get proper financial support. By studying the role of bank finance, this research helps in understanding how banks can better support these enterprises.

This study is useful for business owners because it explains how bank loans can help them grow and manage their businesses more effectively. It also highlights the common problems faced during the loan process, which can help entrepreneurs become more aware and prepared.

This research is also helpful for banks and policymakers. It gives them a clear idea about the real needs and difficulties of MSMEs. Based on the findings, they can improve loan procedures, reduce unnecessary delays, and design better financial support systems.

For students and researchers, this study adds valuable knowledge about the relationship between banking finance and small business growth. Overall, the study contributes to improving financial support for MSMEs and supports the economic development of the country.

Research Methodology:

This study aims to understand how banking finance supports the growth and long-term stability of MSMEs in India. The research is carried out in a systematic way, and the details are explained below.

1. Research Design

This study uses a descriptive and analytical research design. The descriptive part helps in understanding the present situation of MSMEs and the type of financial support they receive from banks. The analytical part helps in studying how bank finance affects business growth and stability.

2. Sources of Data

This study is based on two types of data:

Primary Data:
Primary information is collected directly from MSME owners. A structured questionnaire with simple questions is used to gather information about loan availability, loan process, problems faced, and business performance. Personal discussions and short interviews are also conducted.

Secondary Data:
Secondary information is collected from official reports and published sources such as the Reserve Bank of India, the Ministry of Micro, Small and Medium Enterprises, bank annual reports, government websites, and research articles.

3. Sample Design

This study focuses on selected MSMEs from manufacturing and service sectors. A group of business owners is selected as respondents. The sample includes different types of enterprises such as micro, small, and medium units to get a balanced view. The number of respondents may be around 100 to 150, depending on availability.

4. Variables of the Study

This study includes two main types of variables:

Independent Variable:

- Banking Finance (loan availability, loan amount, interest rate, and ease of getting loans)

Dependent Variables:

- Business growth (increase in sales, production, and employment)
- Business stability (ability to survive and continue operations smoothly)

5. Tools and Techniques Used

The data collected is arranged in tables and simple charts. Basic methods such as percentage, average, and comparison are used to understand the results. The relationship between banking finance and business performance is studied in a simple and clear manner.

6. Period of the Study

The study covers a period of the last five years. This time period is selected to understand recent trends in banking finance and its impact on MSMEs.

This research method helps in clearly understanding how banking finance supports MSME growth and what improvements are needed in the financial system.

Limitations of the Study:

1. The study is limited to selected MSMEs from a particular area and does not cover all MSMEs in India. Therefore, the results may not represent every business in the country.
2. The study is mainly based on the responses given by business owners. If respondents do not provide complete or accurate information, it may affect the results.
3. The research focuses only on banking finance and does not study other sources of finance such as private lenders or informal borrowing.
4. The sample size is limited. A larger number of respondents could provide more detailed and reliable results.
5. The study covers a specific time period. Changes in economic conditions or government policies after this period are not included.
6. Time and resource limitations may restrict deeper analysis of all related factors.

Findings:

1. The study found that bank loans play an important role in helping MSMEs grow. Businesses that received timely loans were able to increase their sales and production.
2. Many business owners said that bank finance helped them purchase raw materials, pay workers on time, and manage daily expenses smoothly.

ISSN
(Online) 2320 – 6446
(Print) 2320 – 8341

3. It was observed that enterprises with proper financial support were more stable and able to survive during difficult situations.
4. Some MSME owners found the loan process easy, especially when they had proper documents and good banking history.
5. However, many respondents reported problems such as lengthy procedures, delay in loan approval, and requirement of collateral security.
6. High interest rates were also mentioned as a burden by some small business owners.
7. Digital banking services have made the loan process faster and more convenient for many enterprises.
8. Lack of awareness about government loan schemes was found to be one of the main reasons why some MSMEs could not fully benefit from bank finance.

Conclusion:

This study shows that banking finance plays a very important role in the growth and stability of MSMEs in India. Small businesses depend on bank loans to manage their daily expenses, buy raw materials, purchase machinery, and expand their activities. When MSMEs receive timely and sufficient financial support, they are able to increase their sales, create more jobs, and improve their overall performance.

The study also found that proper bank finance helps businesses remain stable during difficult times. Enterprises with financial support are better prepared to handle losses, market changes, and unexpected problems. This shows that banking finance not only supports growth but also helps in long-term survival.

Many MSME owners still face problems while applying for bank loans. Lengthy procedures, documentation requirements, high interest rates, and collateral security create challenges for small entrepreneurs. Lack of awareness about different loan schemes also limits their benefits.

ISSN
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