



Enhancing Small and Medium Enterprises: The Integral Role of the Banking Sector in Uttarakhand State's Development

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Abstract: *Small & Medium Scale Industries and the banking sector are fully interwoven to each other. In fact, both significantly contribute in the economic development of any country or states, cross-cutting all the limitation. Perhaps, both the sectors ride on the back of each other, especially when it is oriented to their own development or growth in the market. Here, Banks play significant role in garnering loans to SMEs for its development, and in return, SMEs transfer interest along with the principle that it has generated from the banks to meet out the requirement. India being a developing nation dependent largely on its SMEs not just in boosting the economy of the nation, but also as it is rightly said, “ extension of SMEs result in the increase of employment, and import and export of the manufactured goods”.*

This review paper, has been designed with the view to poke the nose to understand the vitality of the banking system, further study the fruition of the integration of banks with SMEs, especially in the case of the newly formed state of Uttarakhand, which is known for its distinct identification because of geographical relief feature. Mainly, the researcher has used the past literature in the form books, articles of magazines, Newspapers and Social Media blogs as well as the reports of RBI and others; so that the truth could be revealed. The paper also points out the perpetual state of advancing relations between Indian banking (including Public and Private both sectors) and the SMEs. The paper would discuss the policies initiated by the state government to foster the SMEs role to stop the migration which is seriously becoming grave matter of concern, especially in the hilly terrains of the state. Nevertheless, researchers also aim to explore and analyse the effects of banking policies on the development of SMEs.

Keywords: *Healthy Extension, Interwoven, Integration, Migration, Terrain, Micro-economy.*

1. INTRODUCTION:

Uttarakhand state is known for its versatilities whether that may be in terms of invariable flora or fauna living in the deciduous and mountainous forest of the state or whether it be perennial rivers that flows all from the interior part of the Himalayas and gradually bringing enormous silt to make its foothills fertile for agriculture and also these perennial rivers have enormous potentiality to generate hydro-electricity. The state is known for its iconic landscape, pilgrim centers, tourist spots, nutritive food stuffs like madva, gehath, etc. and herbal species of herbal and medicinal plants. But contrast to it prosper bestows, ironically, the state is steadily sinking to the abyss of poverty, misery, pang of migration etc., the worse is added to wound was the outbreak of Pandemic COVID-19 which not only hampered the lives of the people of Uttarakhand, but also made the economic condition dismal. As, the tourism industry had an adverse impact during the turmoil, which is the greatest chain of employment, and generating earning because agglomeration of other business.

Eventually, with government effort and policies to make the economy stable, slowly but steadily the transformation has been witnessed in the recent years; a new light of hope is bestowing upon the SMEs, and bank sector is playing pivotal role.

To understand the dynamics between the two, we must go into the depth of the two; Banking and MSMEs, and how these are linked to each other in the prospect of developing the economy. In fact, SMEs play a pivotal role to uplift



the economy of countries like China, the USA and many European countries. In a country like China, an astounding 98.64% of all enterprises are categorized as small businesses, each with 300 employees or fewer. These entities collectively fuel over 60% of the total Gross Domestic Product (GDP), contribute 50% of the tax income, spearhead 75% of job creation, and drive a significant 68% of exports. This underscores the pivotal role small businesses play in China's economic landscape, serving as the backbone of its financial vitality and employment ecosystem. (IGuo Linmao, Ma Xianghui).

Do Bank Sector garner the SMEs in Uttarakhand State- Uttarakhand is still in the lap of her mother, and require proper care and nursing to a tree of fruition, and the purpose can only be mustered by the support of banks. Do the banks play any major support, let's analyze the relation between the two.

- **Credit Policy-** The credit policy in Uttarakhand serves as a pivotal support mechanism for SMEs, primarily through the facilitation of accessible and cost-effective credit. Numerous small and medium enterprises encounter difficulties when seeking credit from conventional avenues like formal banking establishments. Consequently, banks assume a critical function in mitigating this challenge by offering SMEs affordable and readily available credit. This support enables SMEs to surmount financial limitations and fosters their development and scalability.
- **Provision of Financial Advice and Services-** It is noticed that the banks initiate guidance on financial management decisions, and risk assessment. Such contributions are the symbol healthy obligation in the growth and advancement of SMEs.
- Besides, the role of banks is also essential in promoting the SMEs in the backward state like Uttarakhand, as the financial inclusion means a lot for the small industrial owners. In nutshell, financial inclusion is the provision of affordable, accessible, and appropriate financial products and services to the underserved and unserved population, including SMEs. Banks can help SMEs in Uttarakhand by offering tailored financial products and services that address their unique needs and preferences.
- **Capacity-building Support-** Bank can also contribute to the growth and development of SMEs in the state by being supportive in training and skill development programs that help SMEs improve their management practices, enhance their productivity, and expand their business operations. By investing in SMEs' capacity, banks can help them become more competitive, profitable, and sustainable.

Background- In the era when the central government policy is enhancing a path for the growth of SMEs, it becomes important as researcher to see and study the changes that taking place in the relation between the SMES and bank sector; especially when recently due to pandemic COVID-19 the impact was severely blow on the small scale; and Uttarakhand was the exception. Notably, the government's budget allocation for 2021-22 for MSMEs was Rs. 15,700crores against Rs. 7,572 crores in 2020-21, which gives a ray of hope for investors in SME sector. In Uttarakhand state also there is high hope, but the new policies will stop the migration and tend to generate employment for the people in the harsh terrain, still is a matter of concern.

Research Objectives-This research endeavours to comprehensively explore the multifaceted landscape of SMEs, and further its relation with banking sector to fulfil the needs of SMEs. The main aims of this investigation entail evaluating the present condition of the banking sector in Uttarakhand and analysing its influence on the progression and advancement of Small and Medium Enterprises (SMEs) operating within the area. This research will encompass an examination of the provision of adequate finance, digital infrastructure services, financial advisory services, and network access for SMEs. It also aims to explore the ways in which these services enhance the overall success and sustainability of SMEs. By investigating the relationship between SMEs and banking sector, the study provides valuable insights into the strengths, weaknesses, and opportunities for existing and potential SMEs in Uttarakhand. Additionally, this research will inform government and banking policies and programs designed to foster SME growth and economic development in the region.

Scope and Limitation- Banks play a crucial part in boosting the local economy by helping SMEs access the resources and connections they need to thrive. The banking sector's influence surpasses financial assistance and extends into advisory services, digital infrastructure, and partnerships that promote innovation and growth in SMEs. Nevertheless, the effectiveness of banking services is constrained by various limitations, including stringent lending criteria, inadequate expertise in specialized industries, and challenges related to infrastructure. These constraints may lead to inequitable access to resources, preventing some SMEs from reaching their full potential.



2. Literature Review :

Report of World Bank (2014) - According to the World Bank's report in 2014, Small and Medium Enterprises (SMEs) often depend on internal financing, which originates from shareholders. While SMEs commonly resort to long-term financing from financial institutions, primarily through bank loans and occasionally through hire purchase and leasing arrangements, there exist two fundamental forms of financing for businesses: internal and external financing. Internal financing sources typically comprise retained or undistributed profits accumulated from previous years and fresh capital injections made by the owner(s) of the SMEs. Conversely, external financing can be extended by financial institutions, suppliers, and various other types of creditors.

Chugh, A. (2018) in his article 'The impact of banking sector on small and medium enterprises in Uttarakhand' delves into the direct and indirect ramifications of the banking sector on the growth and progression of SMEs in the state. The research underscores the significance of credit accessibility, financial inclusion, and customized financial products tailored to the needs of SMEs.

Another, researcher of the field, **Chandra, K., Singh, S. (2015)** investigate and describe about the impact of financial access on the productivity of SMEs in Uttarakhand. In their writing, they highlight the significance of credit availability, interest rates, and loan terms in the growth and development of SMEs.

The report related to SMEs and banking sector published by **The Research Bureau of Uttarakhand 2014** reveal that MSMEs in Uttarakhand generate (on an average) gross annual sales of more than Rs 23 crore in the domestic markets while an average annual gross sale of Rs 3 crore in international markets. According to the report, nearly 46% of the respondents reported that they have marked robust growth in their profits, which turn to be optimistic, but contrary to it the state also faces nightmare in procuring inputs from domestic and local markets. The problems faced by them include unavailability of appropriate transportation, easy access to finance, inter-state taxes, administrative bottlenecks, law and order situation etc.

Vipul Jain, Assistant Professor, Department of Management- In his article titled 'A STUDY & SCOPE OF SME'S IN UTTARAKHAND AND PROBLEMS FACED BY THEM', Vipul Jain, Assistant Professor in the Department of Management, provides insight into the industrial growth in Uttarakhand since 2003. He highlights that significant industrialization has occurred in the plains of the state following the special package announced by the Centre in 2003. However, Jain emphasizes the need for inclusive growth, particularly in hilly and remote areas. To address this, the Integrated Industrial Development Policy 2008 was introduced in February, focusing on fostering economic development in these regions. The policy aims to bolster industrial infrastructure, promote entrepreneurship through market incentives and financial support, and generate employment opportunities. By targeting industries in manufacturing and services, the policy endeavours to mitigate economic backwardness and stem the migration of the population towards more developed areas in pursuit of better livelihoods.

3. Challenges faces by SMEs in Uttarakhand-

The state is characterized by two distinct terrains: the hilly region and the plain region. While the state has embraced an optimistic approach towards industrialization in the plains, the hilly areas are grappling with challenges in industrial development. It's noteworthy that despite facing hurdles, the hills boast abundant reserves of raw materials. However, a more pressing concern lies in the formidable challenges posed by limited banking facilities, particularly in the remote interior regions of the state. These challenges have the potential to substantially impede the growth and progress of businesses, consequently impacting the overall economic well-being of the region.

1. **Access to Capital-** One of the most significant challenges faced by SMEs in Uttarakhand is access to capital. Many banks in the region do not offer collateral-free loans or provide small loans, making it difficult for SMEs to access the necessary funding to grow their businesses. This issue is particularly acute for microenterprises, which often lack the necessary assets to secure a loan from a traditional bank.
2. **Financial Literacy-** Many SME owners do not fully understand the complexities of financial products, making it difficult for them to make informed decisions about their business's finances. This leads to poor financial management and ultimately hinder the growth of the business. Banks can play a crucial role in addressing this issue by providing financial education and training to SME owners.



3. **Bureaucratic Delays**-SMEs in Uttarakhand often face lengthy delays when applying for loans from traditional banks. This creates a significant barrier to growth, as businesses may need capital to expand quickly and take advantage of new opportunities. Banks can help address this issue by streamlining their loan application processes and reducing the time it takes to approve and disburse loans to SMEs.
4. **Lack of Customized Financial Products**- Another challenge faced by SMEs in Uttarakhand is the lack of customized financial products tailored to their specific needs. Many banks offer standard financial products that may not be suitable for the unique needs of SMEs. Banks can help address this issue by offering a range of financial products that are specifically designed to meet the needs of SMEs, such as microloans and working capital loans.

Advantageous of Banking sector for SMEs in Uttarakhand- The growth and development of Small and Medium Enterprises (SMEs) in Uttarakhand are significantly influenced by the pivotal role played by the banking sector. It is the backbone for industrial development in any part and corner of the country, and especially in the remote geographical regions. Uttarakhand stands out as a region requiring substantial financial support to bolster its infrastructure development. Banks play a crucial role by offering vital financial support, resources, and services to SMEs, thereby enhancing their competitive advantage and empowering them to seize new opportunities.

Despite of grave hurdles in the relation between the SMEs and Banking sector specifically for the natives who inspire to establish SMEs, as they face challenges to justify themselves, in front of the banks for the sake of loan requirement, yet certainly there are significant advantages that make SMEs potential for their growth.

Banks are the lime light for the mushrooming of SMEs in all corners of the state, as opportunities of setting plants are electrifying, only require guts and opportunities leverages by investments. And the banks are the only possibilities. The establishment of SMEs means growth in the GDP of the state, and thereby will improve the living standard of people living in the state. The following are the reasons-

1. **Access to Finance**- The major significant advantages of the banking sector for SMEs in Uttarakhand could be in relation to access to finance. As, Banks provide various financial products and services tailored to the specific needs of SMEs, such as working capital loans, micro loans, and collateral-free loans. These financial resources enable SMEs to invest in new equipment, expand their business operations, and take advantage of new market opportunities, thereby accelerating growth and development.
 2. **Technology Support**- Banking sector isn't just loan provider for SMEs, but also support with technology and infrastructure support, which can significantly improve their operational efficiency and productivity. For instance, banks offer digital banking solutions, mobile banking apps, and online Accounting and Record Keeping Services, facilitating faster, more transparent, and more secure transactions.
 3. **Financial Advisory**-The Banking services can be very beneficial for SMEs for informing financial decisions, managing their cash flow effectively, and plan for future growth. Banks can also provide advice on Value Added Tax (VAT) compliance, tax returns, and accounting practices, helping SMEs to navigate the complexities of India's tax and regulatory landscape.
 4. **Network Access**- The banking sector also can proffer network access for SMEs in Uttarakhand by helping SMEs to make link with other businesses, suppliers, and customers, providing them with valuable opportunities for collaboration, partnerships, and growth. Banks can also facilitate access to international markets and trade, providing SMEs with new opportunities for expansion and diversification.
- 5. Conclusion :** The development and growth of small and medium enterprises (SMEs) in Uttarakhand hinge significantly on the pivotal role played by the banking sector. It furthers economic progress by offering financial services, support mechanisms, and networking opportunities. These services enable SMEs to access essential resources, enabling them to scale and contribute to local and regional economic growth. But, obstacles such as stringent lending criteria, lack of specialized industry expertise, and infrastructure bottlenecks can hinder access to banking services for certain SMEs, thus limiting their potential for success. To effectively support SMEs in Uttarakhand, the banking sector must continuously adapt and innovate, offering tailored services to address the unique challenges faced by these businesses.



The other significant role that banks can play in its contribution is to develop partnerships with government bodies and NGOs to ensure better outreach to SMEs. Through these partnerships, banks can initiate educational programs and workshops that help SMEs understand various banking services, financing options, and services available to them. This can help increase the capacity and confidence of SMEs to make critical financial decisions.

In conclusion, the banking sector stands as a pivotal catalyst for the growth and sustenance of small and medium enterprises (SMEs) in Uttarakhand. Through its financial mechanisms and support structures, banks provide SMEs with access to essential capital, enabling them to initiate and expand their operations. By offering a range of financial products and services tailored to the unique needs of SMEs, including loans, lines of credit, and financial advisory services, banks facilitate the development and scalability of these enterprises. Moreover, the banking sector's involvement fosters entrepreneurship, innovation, and economic resilience within the SME ecosystem, contributing significantly to Uttarakhand's overall economic prosperity and development trajectory.

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