

1.1 INTRODUCTION

Commercial banks play a pivotal role in the economic development of countries by providing crucial financial services to various sectors. Among their key functions, financing Small and Medium-sized Enterprises (SMEs) is particularly significant. SMEs are often described as the backbone of many economies due to their role in job creation, innovation, and overall economic dynamism. However, despite their importance, SMEs frequently face challenges in accessing sufficient financial resources. This is where commercial banks step in, bridging the gap between the financial needs of SMEs and the availability of capital. Historically, commercial banks have been the primary source of credit for SMEs. By offering loans, credit lines, and other financial products, banks enable these businesses to fund their operations, invest in growth, and navigate financial uncertainties. The traditional banking model involves assessing the creditworthiness of SMEs through various metrics, such as credit scores, financial statements, and business plans. This process helps ensure that the banks manage their risk while providing necessary funds to businesses that can potentially generate significant returns.

However, financing SMEs poses distinct challenges for commercial banks. SMEs often have limited financial history, less collateral, and higher risk profiles compared to larger corporations. This can make banks hesitant to extend credit, leading to a potential credit gap that impedes the growth of these businesses. To address these issues, banks have developed specialized products and services tailored to the unique needs of SMEs. These include microloans, trade finance solutions, and innovative credit assessment models that leverage technology to better evaluate risk.

In recent years, the role of commercial banks in SME financing has been evolving due to advancements in technology and changes in regulatory frameworks. The rise of fintech companies, alternative lenders, and government-backed loan schemes has introduced new dynamics to the traditional banking landscape. Despite these developments, commercial banks remain a critical source of finance for SMEs, continually adapting their strategies to support the growth and sustainability of these vital enterprises. This ongoing evolution reflects the broader trends in the financial sector and the growing recognition of the importance of SMEs in driving economic progress.

1.2 SIGNIFICANCE OF THE STUDY

The significance of this study lies in its potential to shed light on the challenges and opportunities related to financing Small and Medium Enterprises (SMEs) through commercial banks. SMEs are a vital component of the economy, contributing to job creation, innovation, and overall economic growth, yet they often face difficulties in accessing the necessary financial resources for expansion and sustainability. By analyzing the role of commercial banks in SME financing, this study seeks to identify the barriers and limitations in the current banking system, offering insights into how banks can better serve the needs of this sector. Furthermore, the findings can help policymakers design more effective strategies and regulatory frameworks that promote financial inclusion, ensuring that SMEs have the resources required to thrive. Ultimately, the study aims to enhance the understanding of the financial ecosystem for SMEs, benefiting banks, policymakers, and entrepreneurs alike in fostering a more inclusive and dynamic economy.

1.3 STATEMENT OF THE STUDY

The problem addressed in this study is the limited access to finance for Small and Medium Enterprises (SMEs) despite the crucial role they play in the economic development of a country. Commercial banks, which are key players in providing financial support, often face challenges in adequately serving the diverse needs of SMEs. These challenges include stringent lending criteria, a lack of tailored financial products, and concerns over the perceived risk associated with SME lending. This study aims to explore the role of commercial banks in financing SMEs, examining the barriers to credit access, the effectiveness of existing banking policies, and potential strategies to improve financial inclusion for SMEs. Understanding these dynamics is critical to fostering a more supportive financial environment for SMEs, which are essential for innovation, employment, and economic growth.

1.4 OBJECTIVES OF THE STUDY

- To evaluate the range of financial products and services offered by commercial banks specifically designed to meet the needs of SMEs.
- To analyze how accessible and affordable these financial products are for SMEs.
- To measure the influence of bank financing on the growth and development of

SMEs.

- To identify the key challenges faced by SMEs in their interactions with commercial banks and to explore potential opportunities for improving these relationships.

1.5 SCOPE OF THE STUDY

The scope of this study is focused on examining the role of commercial banks in providing financial support to Small and Medium Enterprises (SMEs) within a specific geographical region or country. It will explore the various factors influencing bank lending to SMEs, including the assessment criteria, loan approval processes, and the types of financial products available to these enterprises. The study will also investigate the challenges SMEs face in accessing credit and how commercial banks address these challenges. Additionally, it will assess the effectiveness of existing policies and regulatory frameworks governing SME financing. The research will be limited to commercial banks and their relationship with SMEs, and may include both qualitative and quantitative data to offer a comprehensive analysis of the barriers, opportunities, and potential improvements in the SME financing process.

1.6 LIMITATIONS OF THE STUDY

- The study is mainly based on information given by sample respondents, and it may not reveal the actual state of the organization.
- The study is based on the assumption that respondents have given correct information.
- The study contains limited sample size.
- Lack of statistical data from commercial banks as they strictly adhere the rule of secret.

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