Bank's Role in Driving the Growth of SME's

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Abstract: **The financial institutions & Micro and small enterprises (SMEs) are key players in contributing to the overall performance of an economy. SMEs play a vital role in developing the economy and in generating the employment. Apart from providing employment and income opportunities to a large number of people they also forefront technological innovations and export diversification. Parallelly financial institutions play an indispensable role in firm's growth thus increasing industrial productivity and economic growth. They provide a sound medium of exchange, facilitate trading, encourage mobilization of resources through savings, allocate resources to activities with highest returns, monitor investments, exert corporate governance, and offer diversity of financial instruments. Furthermore, they provide financial assistance to fulfill the varied needs of enterprises.**

INTRODUCTION

The term SMEs covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Though there exists no universally accorded definition of SME, the quotidian criteria are the number of employees, assets value, sales value and capital size or turnover. Nevertheless the most common ground of defining SMEs is number of employees. Whatever may be the definition and irrespective of the size of the economy, the growth of SMEs is becoming increasingly important to the economic growth. The issue of the development of SMEs ranks high among the priorities of the socio-economic development and the growing need for employment creation and poverty alleviation. Therefore, access to financial services and institutions is a critical element for SMEs growth. Nonetheless there appears to be a limited proof that confirms the contribution of financial institutions for SMEs growth.

MODEL SPECIFICATION

The models of economic growth were drawn up by Barro, Mankiw. From decades, these models were used by numerous practitioners and researchers thus offering a theoretical outline for examining the indicators which stands helpful to the promotion of economic growth. This has led to a breakthrough in the growth for traditional components such as capital, labor and technology. Various other variables are also being measured in the growth frame.

Therefore, the economic growth sets out the following format:

$$GDPt = \beta0+ \beta1SMEOt+ \beta2EXPRt+ \beta3\ HDIt+ \beta4BCSMEt+\mu t$$

where GDP represents Gross Domestic Product (a proxy for measuring economic growth), SMEO is total SMEs output as a percentage of GDP, EXPR is an annual export rate of SMEs products, HDI is the Human Development Index, BCSME is Banks Credit to SME sector, t denotes time.

The betas (βs) measure each factor's relative significance in explaining the underlying conduct of economic development. For the elucidiation of these coefficients as elasticity, we convert the above equation through pleasing the natural logs. Therefore the transforms;

$$lnGDPt = \beta0 + \beta1lnSMEOt+ \beta2\ lnEXPRt+ \beta3\ lnHDIt+ \beta4lnBCSMEt+\mu t$$

The selection of co-variance is generally well-versed by the relevance of the feature to the topographical economy and the availability of data during the period.

ROLE OF SME'S TO ECONOMIC DEVELOPMENT OF THE NATION

The performance of SMEs is important for both economic and social development of developing countries. From the economic perspective SMEs provide a number of benefits, most donor countries and development agencies share the view of the SME's springing up of such entrepreneurial and innovative ventures thus promoting the economic growth and reducing the high poverty level in developing economies. The SME"s enhance the competition and entrepreneurship thus having economy wide benefits in efficiency, innovation and productivity growth. Direct government support of SME"s can help countries reap social benefits. They are generally more productive than large firms but are impeded in their development by failures of financial markets and other institutions for capital and other non-financial assistances. The growth of SME"s boosts employment more than the growth of large firms because they are more labour intensive. So, subsidizing SME"s may help reduce poverty.

Small businesses create monopoly. They are of the view that if there are low entries and exit barriers, well defined property rights, effective contract enforcement, and access to finance, it will work to promote conducive business environment for all firms. Noted that SME"s are thought to be flexible and innovative organizations that respond quickly to customer and market demands (flexibility). The production technologies of many manufacturing SME"s may inhibit flexibility providing employment for a considerable number of people both in rural areas as well as cities. Despite this recognition and its significance for local and national economic development, research has not investigated systematically, the real strengths and weaknesses of these rural enterprises. SME"s and entrepreneurs are bedrocks of new goods and services new methods of production, the opening up of an economy by setting or opening up of new markets, introduction of new sources of supply as well as industrial re-organisation. So, the innovativeness of these ventures is their capability to create a change by altering the conventional ways in terms of available technology, strategy, skills and styles.

Banks should extend their helping hand towards early stage SMEs by providing value-added services, mentorship, guidance, and support system. More than just funding, small businesses require business management tools and advice on how to diligently spend the working capital. Small businesses often face multiple challenges in various stages of financial growth and hence seek tailored solutions. Remote virtual interaction with relationship managers of banks might be a huge relief for small businesses irrespective of their geographical location. Banks can initiate such interaction through online tools allowing SMEs to book appointments online. The abundance of unstructured data available in business bank accounts of SMEs can be leveraged using advanced technologies like artificial intelligence, data analytics, and big data tools thus improve the lending decision and better accessibility on the creditworthiness of the borrowers. In the world of digital and alternative lending, small businesses switch banks abruptly for quick and tailored services that can support their growth at every stage of business. With the alternative SME lenders who infuse innovation in every field of the SME lending lifecycle, banks cannot afford to be complacent about taking initiatives to address the credit gap among SMEs and must improve the experience through the entire lending cycle.

CONCLUSION

SMEs have a serious difficulty in gaining access to products and services from financial institutions, particularly from banks and MFIs (Micro Finance Institutions). Inadequate collateral, difficulty of processes, fear of inability to repay, and high borrowing cost were frequently mentioned reasons by SMEs for inaccessibility of banks products and services. Although they had limited access from banks financial resources due to the above reasons, SMEs were received both short term and long term loans. Thus SMEs were used banks and MFIs as one source of financing either for working capital or investment requirements even though their main sources were from their own saving and retained earnings as well as from their relatives and Equb. Similarly, banks were typically provided a variety of additional financial services such as cash management, saving and payment, and other transactional products. Besides providing financial services, banks were help SMEs growth through amenable information, asymmetry, inter temporal smoothing of risks, and by ensuring proper utilizations of funds. But such contributions of financial as well as non financial services were found to be by far lower than the SMEs demand. Concerning the forms of financial assistance, banks offered short term loans, cash credit, and over draft facility to finance SMEs working capital requirements. Similarly, banks also offered medium and long term financial assistance by way of term loans. This is in line with the traditional role of commercial banks. In general, although limited provision of banks products and services, banks help the SMEs development and growth.

Apart from banks, MFIs played significant role in SMEs development process. In the context of Ethiopia, MFIs were established to broaden access to financial services for poor and small enterprises. MFIs provided both term loan and installment loans. It was shown that access to MFIs enabled SMEs, particularly small enterprises that are underserved by banks, to overcome financing constraints and thereby accelerating their growth rate. Despite their importance in SMEs growth, MFIs still provided inadequate financial access to finance SMEs working capital as well as investment needs. In addition, MFIs typically provided a variety of additional financial services include: cash management, saving and payment, third party asset management (trustee) and insurance. Besides providing financial services, MFIs also provided social intermediation, non financial services, and enterprise development services. However, some MFIs failed to provide such products and services. The most frequently mentioned reasons are low lending capacity, business size were beyond the target, inadequate funds, and high borrowing cost. However, the social benefits that gained by clients of MFIs supersede the high borrowing cost.

In addition, MFIs also support the development of SMEs through training in book keeping and manpower development, business control and monitoring, and by providing available business as well as others relevant information but they failed to does so. Finally, in terms of the stated explanatory explanations, the specific empirical findings emerged from the investigation that there exists significant positive relationship between independent variables and dependent variable. Moreover, the selected independent variables may significantly explain the variations in the dependent variable i.e. profit.

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