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ASSESSING THE DEVELOPMENTAL ROLE OF BANK OF BARODA IN INDIA'S MSME SECTOR

Prof. Bimal Jaiswal, Department of Applied Economics, Faculty of Commerce, University of Lucknow, Email: bimalsiyaram@gmail.com
Ms. Ayusha Mishra, Research Scholar, Department of Applied Economics, Faculty of Commerce, University of Lucknow, Email: ayushamishra87@gmail.com

ABSTRACT

The Micro, Small, and Medium Enterprises (MSME) sector holds an important place in India's economic development due to its significant contribution to employment generation, industrial output, and exports. Recognizing this, various financial institutions, including public sector banks, have played an essential role in supporting MSME growth. Among them, Bank of Baroda has emerged as a key facilitator by offering tailored financial products and services to meet the unique needs of this sector. This study relies on secondary data, primarily sourced from the bank's annual reports and published documents. The analysis reveals a consistent upward trend in key performance indicators related to MSME lending, reflecting the bank's proactive role in empowering small businesses. The findings suggest that Bank of Baroda has effectively aligned its operations with the national agenda of inclusive and sustainable economic development and is well-positioned to further strengthen the MSME ecosystem in the years ahead.

Keywords: GDP, MSME, Productivity, Bank of Baroda, Economy, Financial Institution

INTRODUCTION

India has emerged as one of the most rapidly advancing economies globally. With a nominal Gross Domestic Product (GDP) of $3.68 trillion and a Purchasing Power Parity (PPP) value of $11.87 trillion, it currently ranks as the third-largest economy in the world (IBEF, November 2021). However, when assessed on a per capita basis, it stands at the 138th position in terms of nominal GDP and 118th by PPP metrics (IMF Report). Over the next decade to decade and a half, India is expected to solidify its position among the top three global economic powers (Business Standard, November 21, 2021).

In terms of growth trajectory, the Indian economy was projected to expand by at least 10% during the fiscal year 2021–22 and by 8% or more in the subsequent year, marking a strong rebound from the COVID-19 downturn (NITI Aayog, 2021). Both the International Monetary Fund (IMF) and the RBI forecast a 9.5% growth rate for the same fiscal period (Business Standard, November 2021).

A major contributor to this growth story is the Micro, Small, and Medium Enterprises (MSME) sector, which serves as an important engine of economic development. With an extensive base of approximately 63 million units, the MSME sector provides employment to around 117 million individuals. It contributes about 30.3% to the nation's GDP, accounts for 45% of manufacturing output, and nearly 49.8% of the country's total exports. MSMEs produce over 6,000 distinct products and play an important role in achieving India's goal of becoming a $5 trillion economy.

While the COVID-19 pandemic temporarily disrupted MSME operations, policy support and targeted government interventions are expected to assist in their revival. The growth and resilience of the MSME sector also depend significantly on the effectiveness of financial institutions and development banks in mobilizing resources. India's development banking structure, particularly through All India Financial Institutions (AIFIs), plays important role in enhancing credit availability both directly and indirectly to MSMEs.

Recognizing the strategic importance of MSMEs in economic development, especially in the context of self-reliance and gender empowerment, the Indian government took the initiative to establish a dedicated institution to cater to the sector's specific needs. This led to the formation of the Bank of Baroda (BoB), a key player in facilitating growth and innovation within the MSME ecosystem.

Bank of Baroda (BoB)

Bank of Baroda (BoB) stands among the foremost public sector banks in India. It operates under the ownership of the Government of India and falls within the administrative framework of the Ministry of Finance. The bank was originally founded on July 20, 1908, by Maharaja Sayajirao Gaekwad III in the princely state of Baroda, now part of Gujarat. Following its nationalization in 1969, BoB emerged as a key institution in the country's banking ecosystem, contributing significantly to financial inclusion and infrastructural development. Its headquarters are located in Vadodara, Gujarat, while the corporate office operates out of Mumbai. With an extensive network, the bank has set up across 95 countries globally.

As a leading commercial banking institution, BoB plays an important role in supporting the Micro, Small, and Medium Enterprises (MSME) sector by offering a range of financial products and schemes tailored to their needs. These include fund-based options such as working capital and term loans, as well as non-fund-based facilities like export finance and credit guarantees.

To enhance MSME financing, Bank of Baroda works in close coordination with numerous government bodies and financial institutions, including SIDBI and CGTMSE. It also actively participates in flagship initiatives such as the Pradhan-Mantri MUDRA Yojana, Stand-Up India, and CLCSS, acting as a key implementation partner.

In alignment with the national vision of "Atmanirbhar Bharat" or a self-reliant India, BoB has increasingly emphasized the expansion of its digital services to simplify and accelerate access to credit, especially for underserved and rural enterprises. The bank has set up a dedicated MSME vertical and introduced digital lending platforms to enhance operational efficiency and reduce turnaround time for credit approvals.

Beyond its traditional role as a financial provider, Bank of Baroda positions itself as a catalyst for development by fostering entrepreneurship, enhancing financial awareness, and encouraging sustainable practices among small businesses. Through these initiatives, BoB continues to reinforce the foundation of India's economy and contribute meaningfully to inclusive and resilient economic growth.

Financial Support Schemes Offered by Bank of Baroda for MSMEs

- ***Baroda Startup Banking:*** This scheme is specifically tailored for startup enterprises and offers comprehensive financial and advisory services. It includes working capital loans, term loans for purchasing machinery and equipment, and cash flow-based lending. The bank also provides assistance in opening current accounts and accessing various digital banking tools.
- ***Baroda SME Easy Loan:*** Under this facility, Bank of Baroda offers quick and hassle-free term-loans and working-capital assistance to MSMEs. The loan amount can go up to ₹100 lakhs, depending on the applicant's business needs and creditworthiness. The scheme is designed to ensure easy documentation and speedy disbursal.
- ***Baroda Loan for Micro & Small Enterprises (MSE):*** Targeted at manufacturing and service sector enterprises, this loan is provided for business expansion, equipment purchase, or working capital needs. The repayment period is flexible and may extend up to 7 years, depending on the nature of the loan.
- ***Baroda SME Smart Trader Finance:*** This scheme is designed for traders with a soundtrack record. It offers finance for inventory management and short-term working capital needs. Borrowers can avail of funds up to a prescribed limit based on their turnover and past financial performance, with flexible repayment options.

- ***Baroda Equipment Finance Scheme:*** Aimed at MSMEs requiring machinery and equipment, this scheme allows financing up to a significant amount, depending on the business profile. The repayment period generally ranges from 3 to 7 years, with competitive interest rates & minimal collateral requirements.
- ***Working Capital and Cash Credit Facility:*** Bank of Baroda provides working capital loans and cash credit to meet day-to-day operational expenses of MSMEs. These loans are tailored to suit the seasonal and cyclical nature of various industries and are offered with flexible repayment options and overdraft facilities.

LITERATURE REVIEW

S. Sharma and K. Dhaliwal (2011) emphasized the role of Bank of Baroda in promoting the growth of the MSME sector through its lending schemes and support initiatives. They highlighted the increasing importance of Bank of Baroda as the chief financial institution catering to MSME development. Their study indicated a positive performance trend, with Bank of Baroda consistently expanding its credit flow to the sector over time.

In a similar vein, K. Sankara Rao and Abdul Rahman Noorinasab (2013) explored the contributions of Bank of Baroda in strengthening MSMEs, while also pointing out key challenges faced by the sector. Their findings revealed that limited financial access, scarcity of raw materials, and inadequate infrastructure remained major barriers to MSME progress. To address the funding gap, the study noted that Bank of Baroda actively provides targeted financial assistance.

Eswaran N. and Meenakshi M. (2017) assessed Bank of Baroda's financial performance and observed significant growth in indicators such as net profit, long-term funds, non-interest income, and total revenue, which outpaced both interest and non-interest expenses.

Francis S. J. (2019) conducted a financial review of Bank of Baroda from 2007–08 to 2017–18, concluding that most key performance indicators showed a steady upward trend during the period.

M. Gorkhe (2021) also analyzed Bank of Baroda's operational progress and found a continuous improvement in its performance metrics. The study emphasized that Bank of Baroda's various initiatives are closely aligned with its overarching objective of empowering and supporting MSMEs.

OBJECTIVE OF STUDY

- To examine the different financial initiatives and schemes offered by Bank of Baroda.
- To evaluate Bank of Baroda's contribution toward the growth & development of MSMEs in India.
- To analyze the importance of the MSME sector in driving economic development.

RESEARCH METHODOLOGY

This research primarily relies on secondary sources of data. Relevant information and statistics have been gathered from official publications of the Ministry of MSME, annual reports of the RBI, reports and publications by the Bank of Baroda, including its sectoral reviews on MSMEs, as well as various credible websites related to the subject matter.

Introduction to MSMEs

The responsibility for shaping and enforcing policies related to MSMEs lies with the Ministry of Micro, Small, and Medium Enterprises, a key department under the GOI. The government has set an ambitious target for the sector, aiming for MSMEs to contribute around $2 trillion to the national GDP by the year 2020. The legislative framework supporting this sector was formalized with the enactment of the Micro, Small & Medium Enterprises Development (MSMED) Act in 2006.

Table 1: Enterprises that manufacture goods and those that provide services

	MICRO	SMALL	MEDIUM
Manufacturing Enterprises and Enterprise Rendering Services	Investment not more than Rs. 1 crore in plant and machinery or equipment, and not more than Rs. 5 crores in annual turnover	Investment not more than Rs.10 crore in plant and machinery or equipment, and not more than Rs.50 crore	Investment not more than Rs.50 crore in plant and machinery or equipment, and not more than Rs.250 crore in annual turnover Plant and Machinery or Equipment

DATA ANALYSIS AND INTERPRETATION

The Bank of Baroda (BoB), a leading public-sector bank in India, has played a crucial role in supporting the growth & development of Micro, Small, & Medium Enterprises (MSMEs). Over the years, the bank has introduced various schemes and initiatives to enhance MSMEs' access to credit and financial services. BoB's offerings and policy framework have evolved considerably to meet the dynamic needs of this sector. The bank provides financial assistance to MSMEs through both direct lending and credit facilitation. However, one of the persistent issues MSMEs face is delayed payments from clients, which often restricts their cash flow and hampers innovation and expansion. In response to these challenges, Bank of Baroda extends support in the form of working capital loans, assistance for technology upgradation, and finance for procurement of raw materials. The following tables and graphs present an evaluation of the bank's effectiveness in addressing the financial needs of MSMEs.

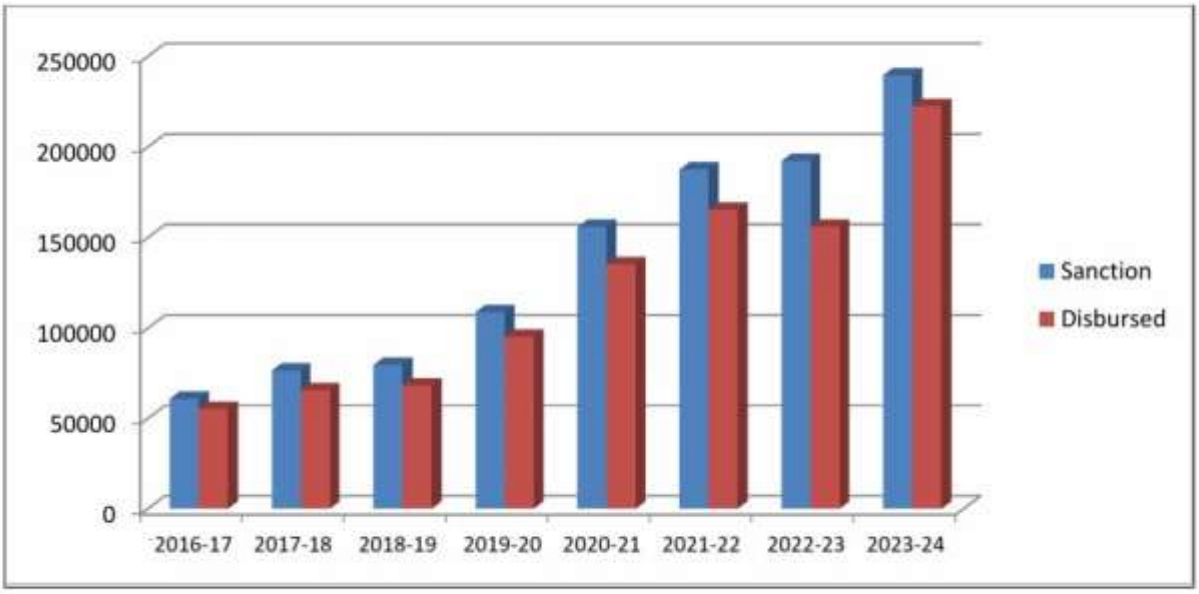
Table 2: Amount of Loan Sanctioned and Disbursed by Bank of Baroda

(in Rs. crores)

Year	Sanction	Disbursed	Percentage
2016-17	60855.00	55341.53	90.94
2017-18	76478.50	65632.10	85.81
2018-19	79682.30	68289.60	85.70
2019-20	10889.45	95290.70	87.50
2020-21	155860.80	135230.37	87.40
2021-22	187538.98	165421.56	88.20
2022-23	192322.44	156232.79	81.23
2023-24	239751.00	222689.00	92.88

Source: *Annual Report of Bank of Baroda*

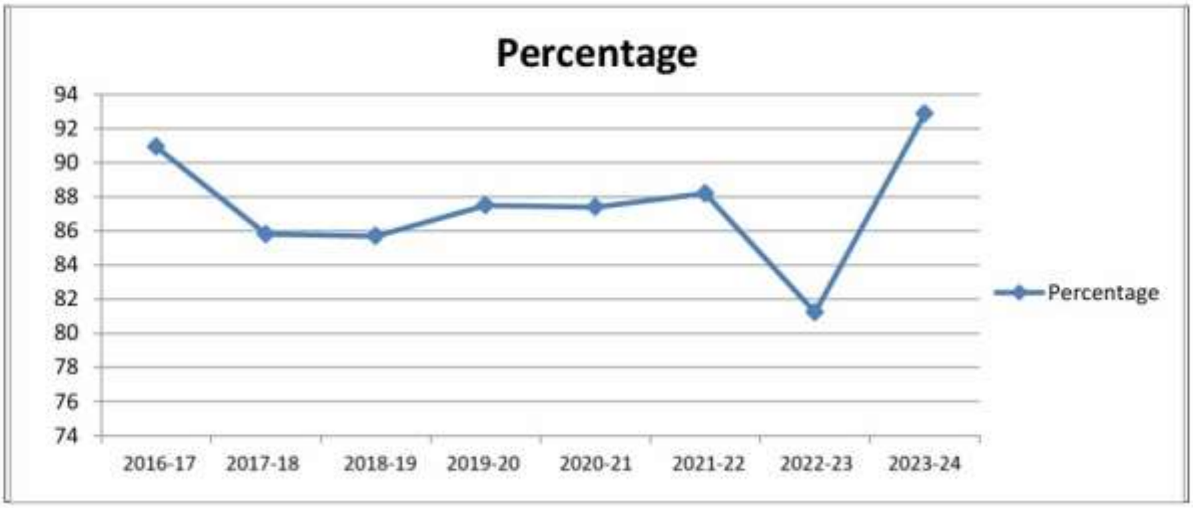
Chart – 1 Sanctioned and Disbursed by Bank of Baroda



Source: *Author's Creation*

The table outlines the financial allocations sanctioned and disbursed by Bank of Baroda across various schemes. It reflects a consistent upward trend in Bank of Baroda's lending portfolio, as corroborated by figures from its Annual Reports. The table captures both the sanctioned loan amounts and the actual disbursements year-wise. In the FY 2016-2017, Bank of Baroda approved loans amounting to ₹60,855 crore, out of which ₹55,342.60 crore was actually disbursed. This figure witnessed substantial growth over the years, reaching a sanctioned amount of ₹2,39,751 crore and disbursements of ₹2,22,689 crore by FY 2023–2024.

Chart 2: Percentage of Loan disbursement by Bank of Baroda from FY 2016-17 to FY 2023-24



Source: *Author's Creation*

The graph clearly indicates a positive trend in the loan distribution ratio. In financial years 2016–2017 and 2023–2024, Bank of Baroda recorded a sanction-to-disbursement ratio of 90.94%, which further improved to approximately 92.91% by the latter year. Among the years considered in the study, this period marked the highest percentage of loans disbursed by Bank of Baroda, making it the most effective year for loan distribution.

CONCLUSION

Micro, Small, and Medium Enterprises (MSMEs) play an important role in driving India's economic growth. Their key objectives include boosting domestic production, creating employment opportunities, and earning foreign exchange through exports. MSMEs also contribute to the development of industrial regions by supporting larger industries. However, they continue to face several challenges, the most pressing being delayed payments from creditors. Additional hurdles include inadequate infrastructure and limited support from commercial banks. Financial resources are important for advancing modern economies and ensuring the smooth functioning of business operations. To address these financial constraints, the Bank of Baroda implements various schemes and provides monetary assistance. Through these initiatives, Bank of Baroda has played a consistent and significant role in the growth & progress of the MSME sector.

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