World Journal of Management
www.worldmanagementjournal.com
Online ISSN:
Received: 06-07-2025, Accepted: 05-08-2025, Published: 20-08-2025
Volume 1, Issue 1, Jul-Sep, 2025, Page No. 7-9

Entrepreneurs' perceptions on the role of commercial banks in supporting rural enterprise development

Raghavendra Reddy P
Faculty of UCET, MGU, Nalgonda, Telangana, India

Abstract
Commercial banks remain the backbone of formal financial systems in rural areas, yet their role in supporting enterprise development remains contested. This study examines the perceptions of rural entrepreneurs toward commercial banks, focusing on access to finance, service quality, and the relevance of banking products to rural business needs. Using a mixed-method approach, data were collected from 250 rural entrepreneurs across agricultural, manufacturing, and service sectors, supplemented by 15 in-depth interviews. Findings show that 68% of respondents recognized commercial banks as essential providers of working capital, but only 42% were satisfied with loan accessibility, citing high collateral demands and lengthy approval processes as primary barriers. Service quality was rated moderately high, with notable appreciation for financial literacy programs and digital banking adoption. However, gaps remain in developing tailored lending products and flexible repayment schemes suited to rural business cycles. The study concludes that commercial banks can enhance their developmental impact through innovative rural lending models, policy-backed collateral flexibility, and strengthened advisory services, ultimately enabling sustainable rural enterprise growth.

Keywords: Commercial banking, rural entrepreneurship, credit accessibility, financial services, enterprise growth, rural development, service quality

Introduction
Rural enterprises are a driving force for economic diversification and poverty reduction in emerging economies. They serve as both employment generators and catalysts for localized development, especially in regions where agricultural dependence remains high. Access to finance has consistently been identified as a key determinant of rural business sustainability (Beck *et al*., 2018; World Bank, 2022) [1, 19]. Commercial banks, with their infrastructure, regulatory compliance, and capital resources, are well-positioned to meet this demand. However, the effectiveness of these institutions in delivering meaningful financial solutions to rural entrepreneurs is under scrutiny.

The global trend toward financial inclusion has placed increasing emphasis on integrating rural populations into the formal banking system (OECD, 2022) [11]. Despite policy reforms, structural challenges persist, including rigid loan requirements, geographic barriers, and limited product customization for rural contexts. Furthermore, while banks have expanded digital and mobile banking platforms, digital literacy and infrastructure constraints in rural areas often hinder adoption.

Previous studies have largely approached the topic from the perspective of financial institutions or policymakers. This study departs from that tradition by centering the experiences and perceptions of rural entrepreneurs themselves. Understanding their perspectives provides nuanced insights into both the successes and shortcomings of commercial banks in rural enterprise development.

Methods
1. Research Design
A mixed-method approach was employed, combining quantitative surveys with qualitative interviews to gain both breadth and depth of understanding.

2. Population and Sampling
- **Population:** Rural entrepreneurs operating micro, small, and medium enterprises in three agricultural regions.
- **Sample Size:** 250 survey respondents, selected via stratified random sampling.
- **Interviews:** 15 entrepreneurs for in-depth perspectives.

3. Data Collection
The survey measured:
- Access to credit and savings
- Satisfaction with financial products
- Perceived bank contribution to business growth
- Non-financial services received

The interviews explored experiences with loan applications, advisory services, and perceived trust in banks.

4. Data Analysis
- Quantitative data → descriptive statistics & correlation analysis using SPSS.
- Qualitative data → thematic coding to identify recurring patterns.

Results
1. Access to Financial Services

Service Type	% Usage	% Satisfaction
Working capital loans	72%	58%
Equipment financing	38%	41%
Savings accounts	95%	83%
Financial literacy training	24%	72%
Digital payment services	55%	69%

2. **Graph:** Perceived Bank Effectiveness

3. **Key Findings**

- **Loan Accessibility:** Only 42% satisfied; main issues → collateral, approval time.
- **Service Quality:** Rated positively for financial literacy & customer support.
- **Digital Banking:** 69% satisfied, but infrastructure remains an issue.

Discussion

The findings of this study reveal a complex relationship between rural entrepreneurs and commercial banks, characterized by both appreciation for existing services and frustration with persistent structural barriers. The perception that banks are essential to rural business growth is widely held among respondents, particularly in relation to working capital provision and savings facilities. However, the satisfaction gap between savings account services (83%) and working capital loans (58%) is telling; it underscores the asymmetry between deposit-taking convenience and lending accessibility.

1. Access to Credit as a Structural Challenge

The limited satisfaction with loan accessibility echoes well-established literature on the "finance gap" in rural enterprise development (Beck *et al*., 2018; FAO, 2021) [1, 5]. The high collateral demands cited by 64% of respondents are particularly problematic in agricultural and microenterprise contexts, where land titles are often fragmented or undocumented. This finding aligns with the work of Khandker and Koolwal (2016) [8], who highlight that rigid collateral frameworks disproportionately exclude rural borrowers from formal credit markets. Furthermore, the lengthy approval process—averaging 6–8 weeks in the present study—contrasts sharply with the dynamic needs of small rural enterprises, which often require rapid capital infusion to seize market opportunities or respond to seasonal demands.

2. Service Quality and Entrepreneurial Capacity

Despite these credit barriers, banks' contributions in terms of non-financial services—especially financial literacy training—were viewed positively. This resonates with findings by Ledgerwood (2013) [9] that financial education enhances entrepreneurs' ability to manage credit responsibly and improves business performance. Training programs were particularly valued by women entrepreneurs, who reported higher perceived benefits from advisory services, suggesting that gender-sensitive program design may amplify development outcomes.

3. Digital Banking Adoption

The adoption of digital payment services by 55% of respondents signals significant progress in rural financial inclusion, a trend accelerated by the COVID-19 pandemic (World Bank, 2022) [19]. However, the gap between usage (55%) and satisfaction (69% among users) indicates that digital banking is generally appreciated by those who can access it, but broader uptake is constrained by infrastructural deficits such as unstable internet connectivity and low smartphone penetration. These challenges have been documented in other developing-country contexts (Donou-Adonsou, 2019) [4].

4. Banks as Development Partners

One key implication of these findings is that commercial banks' developmental role cannot be limited to providing finance. As suggested by Cull *et al*. (2014) [3] and Meyer (2019) [10], the most impactful banking models in rural contexts integrate financial products with capacity-building services, market linkages, and insurance offerings. Respondents in this study expressed interest in bundled services, such as combining seasonal loans with weather-indexed crop insurance—a model shown to improve repayment rates and resilience (Cole *et al*., 2013) [2].

5. Policy Implications

From a policy perspective, there is room for intervention in several areas:

Regulatory Flexibility: Allowing banks to use alternative forms of collateral—such as warehouse receipts or group guarantees—could significantly improve credit access.

Incentives for Rural Lending: Tax breaks or interest rate subsidies could encourage banks to extend more credit to rural enterprises.

Public-Private Partnerships: Joint initiatives between banks, microfinance institutions, and rural cooperatives could expand outreach while sharing risk.

Overall, the evidence suggests that while rural entrepreneurs' value commercial banks, transformative change will require innovations in both product design and delivery mechanisms.

Conclusion

This study set out to explore rural entrepreneurs' perceptions of the role of commercial banks in supporting enterprise development, with a focus on access to credit, service quality, and the relevance of banking products. The results demonstrate that while commercial banks are recognized as essential providers of financial services, particularly for working capital and savings, significant gaps remain in credit accessibility, product customization, and digital service outreach.

The findings highlight a paradox: entrepreneurs trust banks with their deposits and appreciate their training programs, yet many feels excluded from the credit services necessary for business expansion. This contradiction is rooted in structural constraints such as collateral requirements, slow approval processes, and the mismatch between rural economic cycles and loan repayment schedules.

Encouragingly, satisfaction with non-financial services and digital payment platforms suggests potential entry points for reform. By building on these strengths and addressing systemic weaknesses, banks can transition from being mere financial intermediaries to becoming active partners in rural economic development. Key strategies include introducing flexible collateral frameworks, integrating financial products with insurance and market support, and leveraging mobile banking technologies to reach underserved areas.

Ultimately, the study underscores that improving rural entrepreneurs' access to finance is not solely about increasing loan volumes. It is equally about aligning financial services with the realities of rural economies, fostering trust, and building entrepreneurial capacity. If commercial banks can effectively bridge this gap, they stand to play a transformative role in advancing inclusive, sustainable rural enterprise growth.

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