Contribution of Financial Institutions in the growth of MSMEs in Ambala District of Haryana state.

JITENDER KUMAR
Research scholar (Ph.D)
Department of Economics
Indira Gandhi University
Meerpur (Rewari), Haryana

Abstract

The Micro, Small and Medium Enterprises (MSME) play a very important role in every country of the world because this sector contributes to GDP, employment, export and output on a very large scale. This sector has been accepted as the main source of economic growth. The government has initiated various supportive measures to uplift this sector for attaining sustained and inclusive growth. The present article deals with the contribution of Financial Institutions in the growth of MSMEs in Ambala District of Haryana state. The study is exclusively based on primary data which has been collected through field survey. The study considers the time period from 1980 to 2016 to examine the contribution of financial institutions in MSMEs growth. The study found that contribution of the public sector FIs is more effective in loan disbursement rather than private and other financial institutions like relatives to per MSMEs in Ambala district, Haryana.

Keywords: MSME (Micro small and medium enterprises), FIs (Financial Institutions).

Introduction

The micro small and medium enterprises (MSME) play a very important role in every country of the world including India. According to the ministry of MSME, this sector contributes significant role in GDP, service, manufacturing and employment generation. This contribution is the sum up of the performance of different states of the economy in India. Haryana state has made extraordinary progress in every sector since it came into existence. One of them is Micro, Small and Medium Enterprises. It is one of the most vital sector of any economy in general because this sector solves many problems like poverty, the disparity with reference to living standard and unemployment by providing instant large-scale employment with lower investment.

But this sector is not much developed, as required. The main cause of this underdevelopment is lack of financial assistance or services from the financial institutions. In India, MSMEs sector suffers from this kind of problem. So, for the development of MSMEs, financial assistance with affordable interest rates is mostly required. The government has taken various steps to remove this problem. Financial institutions (FIs) can play an important role for this. This paper intends to examine the contribution of financial institutions on the growth of MSMEs in Ambala district of Haryana state.

Definition of MSMEs in India

Small Scale Industries are defined in terms of investment in plant and machinery under section II B of Industries Development and Regulation Act 1951. The small-scale industries first defined in 1950 (Ministry of MSME, India). The first official criterion for small-scale industry dates back in 1955 when it was defined on the basis of limit on investment on fixed assets (Gross investments in land, building, plant and machinery) and power of the labor force or employment in India. Thereafter, in 1960 it was changed and only the investment in fixed assets in plant and machinery was considered for granting the status of a small scale industry unit (condition of employment is completely given up). There have been many changes in investment limits in plant and machinery from time to time, amends the impact of inflation and to meet technological requirements.In India, presently, the definition of MSMEs is based on the investment limits in the plant and machinery of the enterprise. Recently the MSMEs definition is based on the **MSMED Act 2006**. So on the basis of above Act the classification of MSMEs enterprises is as follows:

Table: 1 Classification of MSMEs Investment limits in India

Classifications	Manufacturing Enterprises	Service Enterprises
Micro	Rs. 25 Lakh	Rs. 10 Lakh
Small	Rs. 25 Lakh to Rs. 5 Crore	Rs. 10 Lakh to Rs. 2 Crore
Medium	Rs. 5 Crore to Rs. 10 Crore	Rs. 2 Crore to Rs. 5 Crore

Source: Micro, Small & Medium Enterprises Development Act 2006, GOI.

2.1 An enterprise is classified on the basis of **manufacturing and providing services** under as:

Enterprise involved in manufacturing, preservation or processing whose investment in plant and machinery is not more than Rs. 25 lakhs are called **Micro Enterprise**.

Enterprise involved in manufacturing, preservation or processing whose investment in plant and machinery is more than Rs. 25 lakhs but less than Rs. 5 crores are called **Small Enterprise.**

An enterprise involved in manufacturing, preservation or processing whose investment in plant and machinery is more than Rs. 5 crores but less than 10 crores are called **Medium Enterprise**.

Similarly, an enterprise involved in providing services whose investment in equipment is not more than Rs. 10 lakhs are called **Micro Enterprise**.

An enterprise involved in providing services whose investment in equipment is more than Rs. 10 lakhs but less than Rs. 2 crores are called **Small Enterprise**

An enterprise involved in providing services whose investment in equipment is more than Rs. 2 crores but less than Rs 5 crore is called **Medium Enterprise**.

Review of literature

Anandchakravarthi (2007), in his article, gave attention to the financial help that is received by the SME sector in India with the support of the World Bank. He also discussed the various features of the Indian SMEs. Recently, a loan of $120 million sanctioned by the World Bank to the SIDBI with an objective to improve financial and business status of SME. In India, regenerating finance is essential for the development of the SME because this sector serves as a Greenfield for upbringing entrepreneurial talent. The main motive to establish the Small Industries Development Bank of India (SIDBI) in April 1990 was to provide financial support to the SME. This was the major step that is taken by the GOI to promote of the SMEs in India. Some of the instruments of financing that have been introduced to support SME sector are Micro Credit Capital Funding, Credit Guarantee Fund Trust for small industries, SME Fund etc. The article suggested that a funding by the Indian Banks and financial institutions would grow the SME sector globally and domestically.

Balu, V. (1991), examined the whole financing of small-scale industries and also the contribution of the financial institutions and banks in financing small scale units. The study is mainly based on primary data and covering a sample of 150 small-scale entrepreneurs spread over Madras city. It has been found that the entrepreneur with non-business background relied heavily on external sources like banks and other financial institutions. They face problems like delay in sanction and disbursement, an inadequacy of loan, insistence on collateral security, impersonal and non-cooperative attitude of the officials. A single agency approach has been recommended as a solution to these problems in the study.

Biswas A. (2014), in his paper on role of financing policies and financial institutions for Micro, Small and Medium Entrepreneurs, tries to highlight mainly those polices who have been made by the Indian Government especially for the development of micro small and medium enterprises. The government has started various motivational financial policies for encouraging the entrepreneurs to establish their businesses. This study tries to analyze the contribution of SIDBI and CGTMSE (credit Guarantee fund trust for micro and small enterprises) scheme for the growth of micro small and medium enterprises. SIDBI is playing a very important role in the development of micro small and medium enterprises (MSME) through the CGTMSE scheme.

Biswas A. (2015), in his paper on micro small and medium enterprises and the banking sector in India, try to highlight the role of the banking sector and its contribution in the growth of micro small and medium enterprises in India. This study revealed that banking finance has increased continuously since the priority sector norms come in existence but still there is large a requirement of banking credit for the development of the micro small and medium enterprises sector in India.

Osoro K., Muturi W. (2014), in their study on "The Effects of Financial Institutions Intervention on the Growth of Small Enterprises in Kenya: A Survey of Public Service Transporters in Kisii Municipality", concludes that accessibility to credit affects the financial performance of Small enterprises positively. The study further shows that easier to access credit, the higher the financial performance of the Small enterprises but interests could be expensive but manageable. The study recommends that the government through its central bank should have financial policy that will help offer better interest rate that will enhance the accessibility of credit and financial institutions should make microfinance more accessible and available to enhance growth and development of Small enterprises as it was found that easy accessibility and availability of microfinance have positive impact on the growth and performance of the Small enterprises.

Sundar K., Gandhi, R. Kumar and Gangatharam, G. (2002), studied the contribution of SIDBI in financial assistance to small-scale industries through its various credit programs. They observed that role of SIDBI in loans disbursed over a period of 8 years to the small scale industries is commendable. It is also commendable in terms of the number of schemes sanctioned. Banking generally financed to the small-scale industries via ‘Refinance’ and 'Bills Financing' scheme. But bank's performance is not so impressive in the case of project financing, promotional and development assistance and equity financing.

Tayde P. M. (2016), in his paper on “Contribution of the financial institution in economic development through small scale industry” highlighted that the performance of small-scale industries is financed by commercial banks and other financial institutions. This study is of prime importance because it helps to discover those problems that are faced by small-scale industries in the course of financing themselves. Financial Institutions plays an important role in the rural alliance by supporting the rural population in small business set up through their various packages and schemes.

The objective of the study

To examine thecontribution of Financial Institutions in the growth of MSMEs in Ambala District of Haryana state.

Research Methodology

The study was designed to combine primary survey-based data. The study has selected Ambala district of Haryana state to find out the impact of financial institutions on the growth of micro small and medium enterprises, on the basis of purposive and stratified random sampling. According to the district industrial centre, Ambala district, there were 854 manufacturing micro small and medium enterprises in which 111 MSMEs are surveyed (80 micro, 30 small and 1 medium)to examine the contribution of financial institutions on the growth of MSMEs in the selected region.For the purpose of the study, these enterprises are classified according to the size and capital investment in plant and machinery. Altogether, the study has selected 12.99% of the total enterprises.For analyzing the impact of financial institutions on the growth of micro, small and medium enterprises in the selected region, the focus has given to those enterprises who access financial assistance/services from any financial institution. Therefore, selected samples represent the whole situation of the MSMEs in Ambala district, Haryana.

Data Analysis

Financial institutions and MSMEs are closely related to each other. They provide finance to MSMEs to perform well. Here, the study presented data on the basis of field survey that shows the relation between the financial institution and MSMEs in Ambala District. The sanctioned capital loan by the public sector, Private sector and other sources finance to the micro small and medium enterprises is Rs. 244.91 million, Rs. 41.34 million and Rs. 15.6 million which is 81.1%, 13.7% and 2.5% of the total capital loan disbursed respectively in Ambala district (Table-3).

Table -2 Financial Institutions linkages with MSMEs

Firms	Financial Institutions			
	Public Sector	Private Sector	Relatives	Total
Micro	81	11	0	92
	(88.04)	(11.95)	0	(100)
	[70.43]	[55]	0	[63.44]
Small	32	9	9	50
	(64)	(18)	(18)	(100)
	[27.82]	[45]	[90]	[34.48]
Medium	2	0	1	3
	(66.66)	0	(33.33)	(100)
	[1.73]	0	[10]	[2.06]
Total	115	20	10	145
	(79.31)	(13.79)	(6.89)	(100)
	[100]	[100]	[100]	[100]

Source: Field survey, MSME Ambala District, 2016-17

The table-2 shows the financial institutions linkages with MSMEs in which, out of the total financial institutions, 88.04% FIs related to public sector FIs and 11.95% FIs related to private sector FIs in term of loans allocation to micro enterprises in Ambala district. Similarly, in term of financial institutions related to the small enterprises in which 64% FIs related to the public sector FIs, 18% to the private sector and 18% to the relatives FIs given the financial assistance to the small enterprises. The table also shows that the FIs those are related to the medium enterprises (in terms of loan) in which 66.66% FIs related to the public sector and 33.33% to the relative FIs given the financial assistance to the medium enterprises.

The table also shows that 70.43% public sector financial institutions given the financial assistance to the micro enterprises, 27.82% to the small enterprises and 1.73% to the medium enterprises. Similarly, 55% private sector FIs gave financial assistance to the micro enterprises, and 45% of the small enterprises. Further, the 90% relatives FIs gave the financial assistance to the small enterprises and 10% to the medium enterprises respectively.

The contribution of the financial institution in MSMEs

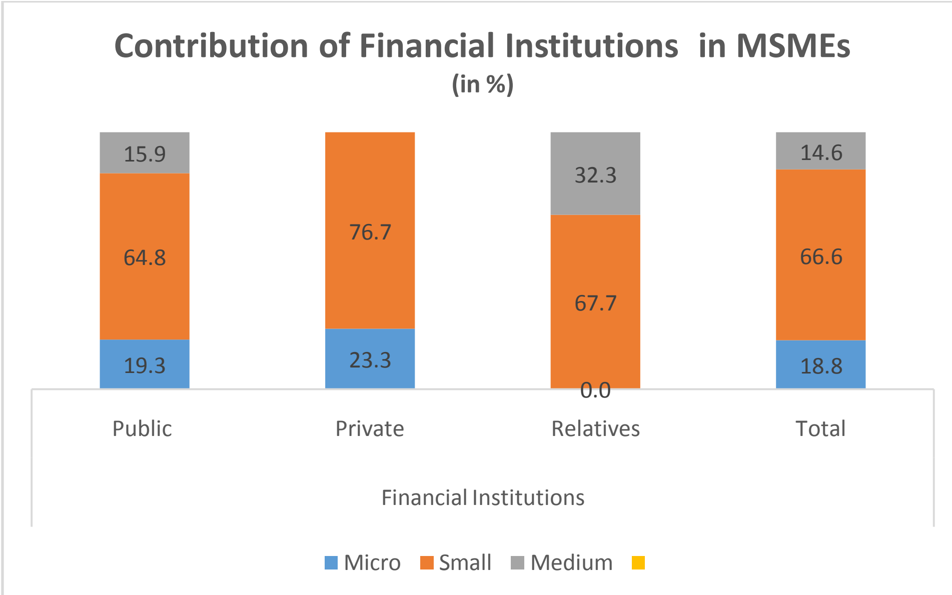
Till now the study examined that the relationship between financial institutions and MSMEs in terms of loan allocation. So the question arises here what is the contribution of the different financial institutions to micro, small and medium enterprises. The contribution of different financial institutions to MSMEs depends on money flow to each MSME. So it is very necessary to know the overall money flow to MSMEs that is shown in the table-3 and figure -1.

Table -3

Firms	**Contribution of Financial Institutions (in millions)**			
	Public	Private	Relatives	Total
Micro	47.2	9.6	0.0	56.9
Small	158.7	31.7	10.6	201.0
Medium	39.0	0.0	5.0	44.0
Total	244.9	41.3	15.6	301.9

Source: Field survey, MSME Ambala District, 2016-17

Figure-1



Source: Field survey, MSME Ambala District, 2016-17

The table and figure show that the contribution of the FIs in terms of loans allocation to micro enterprises is Rs.47.2 million which is 19.3%, Rs. 158.7 million to the small enterprises which are 64.8% and Rs. 39.0 million to the medium enterprises which are 15.9% of the overall loan disbursed by the public sector financial institutions in Ambala district. Similarly, the contribution of Private sector FIs to the micro enterprises is 23.3% which is Rs. 9.6 million, and 76.7% to the small enterprises which is Rs. 31.7 million respectively. Further, the table and figure show that the contribution of relatives/other sources to the small enterprises is 67.7% which is Rs. 10.6 million and 32.3% of the medium enterprises which is Rs. 5.0 million respectively.

In short, the contribution of public sector FIs is Rs. 244.9 million, Rs. 41.3 million from the private sector and Rs. 15.6 million from other sources i.e. relatives to the MSMEs in Ambala district. The overall contribution of FIs in term of loan allocation to micro enterprises is Rs. 56.9 million which is 18.8%, Rs. 201.0 million to small enterprises which are 66.6% and Rs. 44.0 million to medium enterprises which are 14.5% respectively.

3.3 Contribution of per firm loan allocation by different financial institutions

In this section, the study will explain which sector of the financial institution is more effective in loan disbursement. For that, the study examined the contribution of per firm loan disbursement by the financial institutions with the help of the table -4 and table-5.

Table -4

Firms	Per firm capital loan disbursed by different financial Institutions (Rs. in Million)[1]			
	Public	Private	Relatives	Total
Micro	0.59	0.12	0.00	0.71
Small	5.29	1.06	0.35	6.70
Medium	39.00	0.00	5.03	44.03
Total	2.21	0.37	0.14	2.72

Source: Field survey, MSME Ambala District, 2016-17

Table -5

Firms	Contribution of loans by private and relatives w. r. t. public sector institutions[2]		
	Public	Private	Relatives
Micro	1	20.43%	0.00
Small	1	19.97%	6.66%
Medium	1	0.00	12.91%
Total	1	16.88%	6.37%

Source: Field survey, MSME Ambala District, 2016-17

[1] Calculation of, per firm capital loan disbursed by different financial Institutions, using by formula = capital loan of different financial institutions / Number of surveyed firms.

[2] Calculation of, contribution of loans by private and relatives w. r. t. public sector institutions, using by formula = Capital loan by private FIs or other sources like relatives / public sector financial institutions loan—resulted public financial institutions contribution in MSME is 76.75%.

The table-4 shows that the loan disbursed by the public FIs to per micro enterprise is Rs. 0.59 million, Rs. 5.29 million to per small enterprise and Rs. 39 million to per medium enterprise.Similarly, the loan disbursed by the private FIs to per micro enterprises is Rs. 0.12 million, Rs. 1.06 million to small enterprise. Furthermore, the table shows that loan disbursed by the relatives/other sources to per small enterprise is Rs. 0.35 million and Rs. 5.03 million to medium enterprise.

The table-5 shows the percentage data on the basis of the table-5. It is found that the contribution of loans disbursed by the private sector FIs is just 20.43% to per micro enterprise, 19.97% to per small enterprises with respect to the public sector FIs. Similarly, loan disbursed by the relatives/other sources to per small enterprises is 6.66% and 12.91% to per medium enterprises. Furthermore, the table shows that the loan disbursed by the private sector FIs is 16.88% and 6.37% by the other sources of finance like relatives with respect to the public FIs to the MSMEs.

In short, the study found that public sector financial institutions contribution to per MSME is 76.75%, in which 79.57% for per micro, 73.37% for per small and 87.09% for per medium enterprises with respect to the private and other sources of finance in Ambala district, Haryana. So, it is observed from the study that the contribution of the public sector FIs is more effective in loan disbursement rather than private and other financial institutions like relatives to per MSMEs in Ambala district, Haryana.

Findings of the study

1. The study found that 79.31% public sector financial institutions, 13.79% private sector FIs and 6.89% other sources of finance like relatives disbursed/sanctioned capital loan to the MSMEs in Ambala district.

2. The contribution of public sector FIs wasRs. 244.9 million, Rs. 41.3 million from the private sector and Rs. 15.6 million from other sources i.e. relatives to the growth of the MSMEs in Ambala district.

3. The contribution of the public sector FIs is more effective in loan disbursement rather than private and other financial institutions like relatives to per MSMEs in Ambala district, Haryana.

Conclusion and suggestion

Financial institutions play a very important role in the growth of micro small and medium enterprises in India. The study concludesthat the contribution of the public sector FIs is more effective in loan disbursement rather than private and other financial institutions like relatives to per MSMEs in Ambala district, Haryana. The study recommended that government should promote the public sector financial institutions, therefore, the growth of micro small and medium enterprises would happen.

References

- **Anand chakravarthi (2007),** "SME Financing: The Indian Scenario", Financing of Small and Medium Enterprises (SMEs) - Indian and Global Scenario, The ICFAI University Press, Page: 3-13.
- **Balu, V. (1991),** "Financing of Small Scale Industries: A Sample Study Including Notified Backward Ares", The Indian Journal of Economics, vol. 72, No. 285, Page: 258-0289.
- **Biswas A. (2014)**, "Role of Financing Policies and Financial Institutions for Micro, Small and Medium Entrepreneurs", International Journal of Multidisciplinary Research, ISSN: 2348 – 2052, Vol. - 1, Issue- 4.
- **Biswas A. (2015)**, "Micro Small and Medium Enterprises and the Banking Sector in India", EPRA International Journal of Economic and Business Review, e- ISSN: 2347-9671, p-ISSN: 2349-0187, vol-3, Issue-5.
- **Desai, Vasant (1983)**, Organisation and Management of Small Scale Industries, Himalayan Publishing House, p.4.
- **District Industrial Centre, MSMEs,** Ambala Cantt. (2016).
- **Micro, Small & Medium Enterprises** Development Act 2006, GOI.
- **Osoro K., Muturi W. (2014)**, "The Effects of Financial Institutions Intervention on the Growth of Small Enterprises in Kenya: A Survey of Public Service Transporters in Kisii Municipality", Developing Country Studies, ISSN: 2224-607X (Paper), ISSN: 2225-0565 (Online), Vol-4, No-23 Page: 57- 72. www.iiste.org
- **Sunder K., Gandhi, R. Kumar and Gangatharam, G. (2002),** "The Role of SIDBI in Financing SSIs", Sothern Economist, Vol- 41, No-l, Page: 27-29.
- **Tayde P. M. (2016),** "Contribution of the financial institution in economic development through small-scale industry", International Journal of Commerce and Management Research, Volume - 2, Issue - 12, PP. 132-136, ISSN: 2455-1627, www.managejournal.com.