

Contribution of financial institution in economic development through small scale industry

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Abstract

India is an ancient nation of different languages, culture. In India GDPs major portion has been contributed through industrial sector and alliance activities, with the changing dimension the population has move from agriculture to industrial sector due to lack of irrigation and uncertainty of natural environment and rain fall. In other word Industrial revolution started and performs the involvement in India shining. But, the story of success is not yet completed; still most of venture has not grown up in the rural sector as own due to lack of fund and capital. For coping this problem financial institution perform a role as a backbone in industrial development and ultimately, Indian economic development takes place through their financial support and activities.

Keywords: Banking, Economic Development, Financial Funding Agency, Small Scale Industry

1. Introduction

"Economy is a body of nation, industry is a blood and financial institution is a breath"

India is a nation of farmers and agriculture sector is a primary business of nation. Most of the citizens are living in the rural sector with securing the culture of India. A huge amount of population is based on natural rain fall for cultivation of their land and their farming. But the future and nature are uncertain and difficulty can be arising if solely depending on this. So the population are moving on the second option for their survival like small enterprises. Micro, Small and Medium Enterprises sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio- economic development of the country.

Small Scale Industry not only play a role in nation building but also equally responsible for individual development with employment generation and sustainable development in the form of standard of living and their Infrastructural facility. Central Government and State Government take an initiative for promoting such type of small scale enterprises through their separate department such as Ministry of Micro, Small & Medium Enterprises. Ministry of Micro, Small & Medium Enterprises (MSME) envision a vibrant MSME sector by promoting growth and development of the MSME Sector, including Khadi, Village and Coir Industries, in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises and encouraging creation of new enterprises.

1.1 Role of SSI in economic development

The small- scale industrial sector has recorded a high growth rate since independence in spite of stiff competition from the

large sector and not so encouraging support from the government. This is evidenced by the number of registered units which went up from mere 16,000 units in 1950 to 36,000 units in 1961 and to 133.67 lakh units in 2007-08. During the last decade alone, the SSI sector has progressed from production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro-wave components, electro-medical equipments, T.V. sets etc.



Fig 1

1.2 Review of related literature

Subrahmanya K C & Pavan K U, in his research article titled "Importance of Small Scale Industries in the Economic Development of India" in INDIAN JOURNAL OF APPLIED RESEARCH, Volume: 3, Issue: 8, Aug 2013, p. No. 453-455 expressed that in most of the developing countries like India, Small Scale Industries (SSI) constitutes an important and crucial segment of the industrial sector. They play an important role in employment creation, resource utilization and income generation and helping to promote changes in a gradual and phased manner. They have been given an important place in the framework of Indian planning since beginning both for economic and ideological reasons. The reasons are obvious.

The scarcity of capital in India severely limits the number of non-farm jobs that can be created because investment costs per job are high in large and medium industries. An effective development policy has to attempt to increase the use of labour, relative to capital to the extent that it is economically efficient. Small scale enterprises are generally more labour intensive than larger organizations. As a matter of fact, small scale sector has now emerged as a dynamic and vibrant sector for the Indian economy in recent years.

DR.P.UMA, in her research article titled "Role of Smes In Economic Development Of India" in Asia Pacific Journal of Marketing & Management Review, Vol.2 (6), June (2013), expressed that every industrial and business organization has to take up the responsibility to meet the challenges posed by globalization. Not only the big business, but even a small business enterprise in India has to take up the responsibility to meet the standards, qualities, technological up gradation, skills technical know-how needed in the global market. Forty years ago, economist Ernst Friedrich Schumacher published in Britain his book 'Small is Beautiful' in which he argued in favour of human-scale, decentralized and appropriate technologies which small businesses could harness effectively. It means that even a small scale unit operating anywhere in India has to fulfill the standards set by the global giants which operate in India. This is not only in respect of a unit that produces final products but even the one which functions as ancillary or artisan.

Dr. Jignesh H. Gadesha Adhupak Sahayak, in his research titled "Importance of Large Scale and Small Scale Industries in India", in Research Expo International Multidisciplinary Research Journal Volume - II, Issue - II June – 2012 expressed that better industrial relations between the employer and employees helps in increasing the efficiency of employees and reducing the frequency of industrial disputes. The loss of production and man-days are comparatively less in small-scale industries. There is hardly any strikes and lock out in these industries due to good employee-employer relationship. Of course, increase in number of units, production, employment and exports of small-scale industries over the years are considered essential for the economic growth and development of the country. It is encouraging to mention that the small-scale enterprises accounts for 35% of the gross value of the output in the manufacturing sector, about 80% of the total industrial employment and about 40% of total export of the country.

1.3 Problem to be investigated

This study is relevant, particularly, when the Government is very keen on the promotion and development of this capital sparing and labour intensive sector. It has already been mentioned that a big role is played both by the Public and Private Agencies for the promotion and smooth functioning of the sector. Yet, this sector is not performing up to the expectations of many as it has been suffering from several problems. Therefore, the importance of the present study need not be over emphasized in the light of the fact that different problems are centred in this sector and that this study aims in resolving these problems by focusing some key aspect.

1.4 Research methodology

For carrying out this research work, researcher concentrates mainly on Small scale industry and Financial Funding agency with the help of empirical research through secondary data.

Secondary data collected through, Several Research Articles, Newspaper, Periodicals, Govt. Published Report.

1.5 Research objectives

- To identify the role and contribution of small scale industry in GDP.
- To identify the Performance of SSI / MSME Units, Employment, Investments and Gross Output.
- To Study the Contribution of Financial Funding agencies in Small Scale Industry/ MSME through several Schemes/ Packages and Products.
- To study the role of financial institution in small scale industrial enrichment.

1.6 Scope of the study

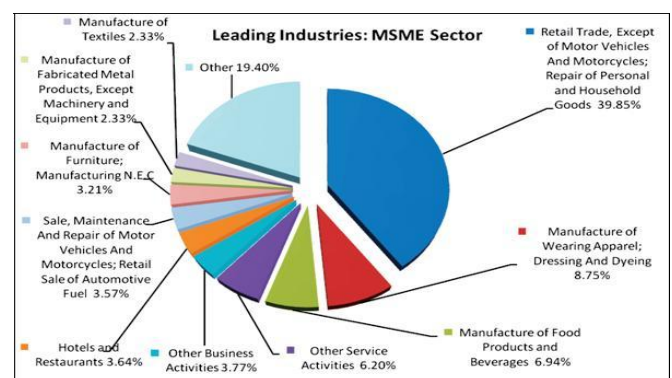
The SSI sectors have recorded significant growth and impressive performance. This study aims at identifying and analyzing the growth of SSI in economic development of the country.

1.7 Limitation of research

- This study considers only secondary published data.
- In this study Small scale industry consider as a universe.

1.8 Research analysis

Small Scale Industrial Unit can be defined as, "An industrial undertaking in which the investment in fixed assets in plant & machinery, whether held on ownership terms, or on lease, or by hire purchase, does not exceed Rs. 100 lakhs is to be treated as a Small Scale Industrial Unit"



Source: Annual Report, Government of India, Micro, Small and Medium Enterprise, pp 17, 2015-16

Fig 2: Micro, Small & Medium Enterprises consist of following important plant and sector

Industry is the segment of economy concerned with production of goods. Small scale industry (SSI) is a term which applies to the small entrepreneurs who are engaged in manufacture and production on a micro scale. The SSI sector continues to remain an integral part of Indian economy with significant contribution to GDP, industrial production and employment generation in India. Worldwide, the SSIs have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the SSI sector is much higher than that of the large enterprises. Small Scale Industry performs a huge role in employment and GDP.

Table 1: Performance of SSI / MSME units, employment, investments and gross output

S. No.	Year	Total Working Enterprises (in lakh)	Employment (in lakh)	Market Value of Fixed Assets (in crore)
I	II	III	IV	V
1	2006-07	361.76	805.23	868,543.79
2	2007-08 [#]	377.36	842	920,459.84
3	2008-09 [#]	393.7	880.84	977,114.72
4	2009-10 [#]	410.8	921.79	1,038,546.08
5	2010-11 [#]	428.73	965.15	1,105,934.09
6	2011-12 [#]	447.64	1,011.69	1,182,757.64
7	2012-13 [#]	467.54	1,061.40	1,268,763.67
8	2013-14 [#]	488.46	1,114.29	1,363,700.54
9	2014-15 [#]	510.57	1,171.32	1,471,912.94

Source: Annual Report, Government of India, Micro, Small and Medium Enterprise, pp 08, 2015-16)

From the above table it can be easily analyzed that the contribution of SSI and MSME unit in Employment generation as well as in the term of Gross Domestic Product (GDP). Past record shows the actual trends of Gross output. It must be measurable while framing the developmental policy by the government. But it's not enough; the success route can be fulfilled when each desirable element convert into the beneficiaries. Population of rural India are not enough competent to establish and start their own business without any external source of finance, even they are not in the position to upgrade their knowledge and skill with the help of several Government schemes and training program run by their separate department due to lack of knowledge and awareness. Till date rural population are not in the position to approach directly to the several funding department like DIC, MSMIE. With the context of traditional approach, individual kept in mind that only financial institution is a funding agency due to this reason they formed a same directed equation with finance and financial institution. Here in this scenario Financial Institution sharing a shoulder responsibility to make avail affected segment with the help of their financial support and their several sorts of tools such as insurance and training.

1.9 Financial institution contribution in SSI/ MSME enrichment

Financial sector plays an indispensable role in the overall development of a country. The most important constituent of this sector is the financial institutions, which act as a conduit for the transfer of resources from net savers to net borrowers, that is, from those who spend less than their earnings to those who spend more than their earnings. The financial institutions have traditionally been the major source of long-term funds for the economy. These institutions provide a variety of financial

products and services to fulfil the varied needs of the commercial sector. Besides, they provide assistance to new enterprises, small and medium firms as well as to the industries established in backward areas. Thus, they have helped in reducing regional disparities by inducing widespread industrial development. The Government of India, in order to provide adequate supply of credit to various sectors of the economy, has evolved a well developed structure of financial institutions in the country. These financial institutions can be broadly categorized into All India institutions and State level institutions, depending upon the geographical coverage of their operations. At the national level, they provide long and medium term loans at reasonable rates of interest. They subscribe to the debenture issues of companies, underwrite public issue of shares, guarantee loans and deferred payments, etc. Though, the State level institutions are mainly concerned with the development of medium and small scale enterprises, but they provide the same type of financial assistance as the national level institutions.

A wide variety of financial institutions have been set up at the national level. They cater to the diverse financial requirements of the entrepreneurs. Following are some important financial institution that perform vital role in business enrichment.

1. Industrial Development Bank of India (IDBI)
2. Industrial Finance Corporation of India Ltd (IFCI Ltd)
3. Small Industries Development Bank of India (SIDBI)
4. Industrial Investment Bank of India Ltd (IIBI)
5. State Financial Corporation's (SFCs)
6. Maharashtra State Financial Corporation (MSFC)
7. Export Import Bank of India
8. Industrial Credit and Investment Corporation of India (ICICI)

Table 2: Outstanding bank credit to micro & small enterprises (Rs. Crore)

As on last reporting Friday of March	Public Sector Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
1	2	3	4	5
2005	67,800	8,592	6,907	83,498
2006	82,434	10,421	8,430	1,01,285
2007	1,02,550	13,136	11,637	1,27,323
2008	1,51,137	46,912	15,489	2,13,538
2009	1,91,408	46,656	18,063	2,56,127
2010	2,78,398	64,534	21,069	3,64,001
2011	3,76,625	87,857	21,461	4,85,943
2012 (Provisional)	3,95,976	1,05,085	19,839	5,20,900

The greatest potential of the commercial banking sector is in its relationship with Small and Medium sized Enterprises, where banks can be very influential through their lending

practices and by providing information with the help of following schemes, Services & Packages through several Financial Funding Agency.

Table 3: Contribution of Financial Funding agencies in Small Scale Industry/ MSME through several Schemes/ Packages and Products

S. No	IDBI	SIDBI	IFCI	ICICI	EXIM	MSFC
1	MSME Finance	Service Sector Assistance	Financial Product	Commercial Banking	Working Capital	Refund under the packages Schemes
1	Restructuring /Rehabilitation Policy	Loan Facilitation and Syndication Service	Project development	Global Market	Export Credit Insurance	Financing of capital Incentive
2	Property Power (Loan Against Property)	World bank - GEF Project- Financing energy Efficiency at MSME's	Corporate Advisory Services	Investment Banking	Loan Guarantee	Development of Non- Conventional Energy
3	Loan to Small Road and Water Transport Operator	Finance Schemes for Sustainable development - Energy Efficiency and cleaner production	Nodal Agency for Sugar Development Fund	FI, Capital Market & Custodial Services	Finance Lease Guarantee	Exemption for sale tax for Khadi / Village Industry
4	Sulabh Vyapar Business Solution	Growth Capital & Equity Assistance		Project Finance	Direct Loan	
5	Vendor Finance Program	Receivable Finance Schemes		Technological Finance	General Bank Policy	
6	Laghu Udyami credit Card	Flexible Assistance for Capital expenses			Special Initiative	
7	Loan to Professional and Self Employed	Finance for Up-gradation & Moderation			Supply Chain Finance Guarantee	
8	SME - Smart Line for credit	Marketing Fund for Women				
9	Funding Under CGFMSE (Collateral Free Loan)	Govt. Subsidy Schemes				

With the help of above table it can be identified the role and contribution of Financial Funding agency in promoting the business enhancement and their activities. The Funding pattern of several schemes and services has been framed with the need of the business seeker and their potential, the role of Financial Institution yet not completed; Financial Institution not only provide the finance to those unit but also motivate them to take an opportunities of several packages and services offered by central and state government as a merchant bankers.

2. Conclusion

The researcher highlighted that the performance of small scale industries are financed by commercial banks and other financial institutions. This study is of paramount importance because it helps to discover the problems facing the small scale industries in the course of financing themselves. Micro and small scale enterprises have been accepted world wide as instrument of economic growth and development. No wonder governments, particularly in the developing countries have made tremendous efforts and established policies to enhance the capacity of micro and small scale business (SSIs). However, despite government institutional and policies support to enhancing the capacity small and medium scale enterprises, small and medium scale businesses have fallen short of expectations. This, then, generated serious concern and scepticism on whether SSIs can contribute to economic growth and national developments.

Capital is a key issue of any sort of business activity, without this key issue its make a difficult path for achieving the ultimate objective of business and their set- up. In the era of liberalization, Globalisation and Privatisation, Industrial

Sector contributes an ample of input in GDP formation. Financial Institution perform a vital role in rural alliance with the globalised world by supporting rural population in small business set up through their several schemes and packages. Here, it must be noted that Financial Institution Work on Front Desk of the society and try to diagnosis the problem of new potential entrepreneurs.

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