

## 7. Credit Flow to Micro, Small and Medium Enterprises by Commercial Banks in Sonitpur District of Assam

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### **Abstract**

*The Finance is most notable block for MSME. In most of the entrepreneurship programme the question of finance arises for potential entrepreneur. Two types of finance are required for MSME. One is short-term finance and another is long- term finance. Usually short- term finance is required for current requirements like for current assets or items like raw materials, stock in progress, book debts ,daily expenses etc The long-term finance are largely used for fixed assets like land, building machinery etc. Finance can be raised from different types of banks that are operating in our country. One of the important financial institutions is commercial banks'.*

*Adequate and timely finance is crucial for the healthy growth of MSME sector. Unlike large scale sector, which are usually undertaken by joint stock, which raise the funds required in the form of share capital from a large number of share holder, MSMES are undertaken by individuals whose capacity to raise the required finance for invest working purpose is limited . Hence institutional finance is very important for the growth of MSME.*

*The role of commercial banks in financing the industries sector was limited in past. The Indian Commercial banks developed on the lines of British Commercial bank traditions concentrated on provision of short term finance to trade and commerce, and working capital needs for large scale industries and they played only a limited role in financing the small scale sector. With the nationalization of the major commercial banks on July19, 1969 considerable changes about in the commercial banks practice in the country (Dasgupta 2008). The concept of priority sector was*

*introduced and MSME sector was included in priority sector. The commercial banks were directed to lend certain percentage of their lovable resources to the priority sector.*

**Key Words:**

**Introduction**

Micro Small and Medium Enterprises play a major role in the growth of our country's economy. MSME sector has a share about 40 percent of the total export earning of the country, 95 percent of industrial units in India fall in MSME sector. On consideration of value addition in manufacturing products its contribution is about 40 percent of the produce of our country. MSME sector is the second largest contributor in GDP (Das Gupta, 2008).

MSME sector manufacture wide range of product, which varies from simple items produced, produce with traditional technology to hi-tech products, produced with sophisticated state-of-art technology. The types of products manufactured by MSME are more than 6000 in numbers. It covers wide range of applications such as household articles (furniture, kitchen wares, decorative items, etc), human consumption item (foods & beverage, cosmetic, medicine, etc) industrial items (mach tools, material handling equipment, accessories etc), infrastructure equipment(road/ bridge construction items electrical machinery and equipment, etc), basic amenity equipment (postal, telephone, telecommunication, equipment etc), transport items (bus, car, two, three wheeler parts, railway parts etc) agriculture implement (tiller, mowers etc) strategic items (different items) etc. In a nut shell, MSME products may be found in all spheres of economic activity. 'No less important is the fact that the Small Scale sector has registered steady growth employment generation. Indeed, this sector constitutes to lead the way in generation of employment opportunities.' (Vajpayee, 2000).

Prior to declaration of the MSMED Act, 2006, small scale industry was defined by notification under section II (b) of the Industries (Development & Regulation) Act 1951. Section 29 (B) of the Act provides for notifying reservation of items for exclusive manufacture in small scale industries sector. Except for those two provisions, there existed no legal frame work for this dynamic vibrant sector of the country's economy. Many expert groups or committees appointed by government from time to time on SSI sector itself leave emphasized the need for comprehensive central enactment to provide

an appropriate legal frame work for the sector to facilitate its growth and development. The world over emphasis has now been shifted from industries to enterprise. The word over emphasis has now been from industries to enterprise. The word enterprise means an industrial undertaking or a business or production of goods other establishment by whatever name called engaged in manufacture or production of goods in any manner pertaining to an industry specified in the First Schedule of the Industries (Development & Regulation) Act, 1951 (clause 65of 19) or engaged in providing or rendering any services (Section 2 of MSMED Act 2006).The MSMED ACT, 2006 classifies enterprises into two broad categories (i) Manufacturing enterprises (ii) Service sectors, depending on investment in plants and machinery. These categories can be shown by following tables 1.1 and 1.2.

**TABLE 1**  
**MANUFACTURING ENTERPRISES**

| Investment in plants and Machinery     | Classification    |
|--|-------------------|
| Up to Rs 25 lakhs                      | Micro Enterprises |
| Above Rs 25 lakhs to Rs 5 Crore        | Small Enterprises |
| Above Rs 5 Crore and up to Rs 10 crore | Medium Enterprise |

Source: *MSMED ACT, 2006*

From the above table 1.1 it is clear that the investment in plants and machinery up to Rs 25 lakhs are include in Micro Enterprise. Investment capacities above Rs 25 lakh to Rs 5 crore are include in Small Enterprises category. Those, which investment capacity is above Rs5 crore and up to Rs10 Crore are include in Medium Enterprises.

**TABLE 2**  
**SERVICE ENTERPRISES**

| Investment in Plants and Machinery | Classification     |
|------------------------------------|--------------------|
| Up to Rs 10 lakhs                  | Micro Enterprise   |
| Above Rs10 lakhs to Rs 2 crore     | Small Enterprises  |
| Above Rs2 crore to Rs 5 crore      | Medium Enterprises |

Source: *MSMED Act, 2006*

In case of service sectors investment in plant and machinery up to Rs 10 lakhs are include in Micro Enterprises. Investment capacity above Rs 5 lakh to Rs2 crore are include in Small Enterprises And those which investment capacity is above Rs 2 crore to 5 crore are include in Medium Enterprise.

### **Objective**

1. To study Credit Flow to MSME by Commercial Banks in Sonitpur District of Assam.
2. To study the divergence between gross credit schemes and bank credits to MSME of the Sample District.

### **Data Base and Methodology of the Study**

The Study is based on both primary and secondary data. In fact the study is empirical in nature. For collection of primary data, stratified sampling technique is applied. The various stages are as follows:

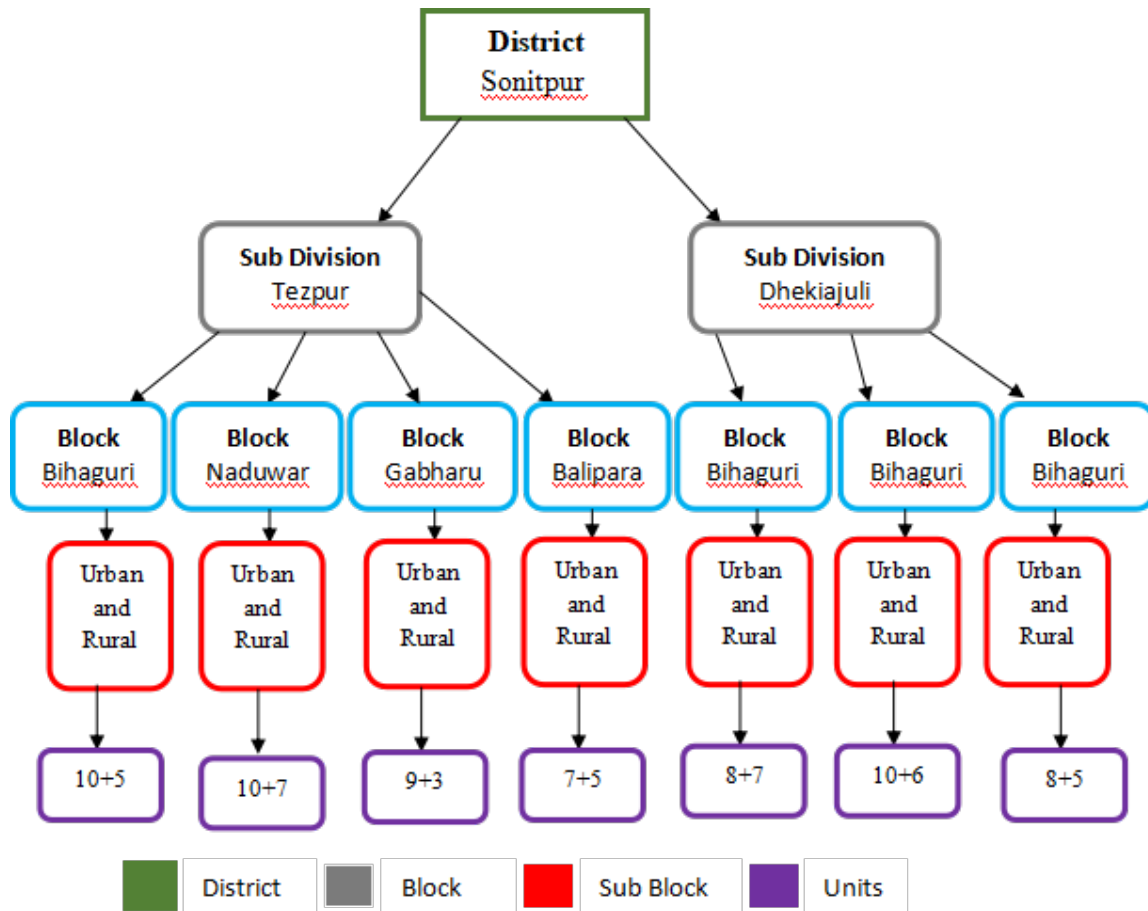
Firstly Sonitpur District is taken as the universe of the study.

Secondly, two blocks namely Tezpur and Dhekaijuli were selected keeping the view of inclusion of both urban and rural areas.

Thirdly, all the survey blocks were selected for the study.

Finally, each block was again categorized as urban and rural and attempts were made to include at least twelve to sixteen MSME units by using simple random sampling method. The detail is given in the following chart 1.1

Chart: 1  
Design of Sample Survey



Secondary data has been collected from reports on trends and progress in Indian Currency and finance and other of various committees' reports, State level banks committee housed, leading banks of Sonitpur district regarding MSME lending. To fill the gap published date the researcher consulted various personal in different department, commercial banks to obtained statistical information. As far as information on MSME conducted committees report on MSME. Apart from these the researcher collected data from small industries Development Organization MSME, Development Institution, Ministry of Industry and Commerce, District Industry and Commerce Centre of Sonitpur District of Assam. The total sample size was 100 MSME units, which constituted of around 4 percent. In order to conduct survey a questionnaires was prepared.

### Review of Literature

Ajit Kantikar (1994), aims at understanding the emergence of successful entrepreneurs and owner of micro enterprises in rural India .Based on the case study of 86 village-based entrepreneurs drawn from different regions of India, the article examines that socio-economic profile of entrepreneurs, their motivation for shifting from agriculture based occupation to non firm activity, their approach raising resources for their enterprises and the factors that facilitated entry of village based entrepreneurs in to business activity.

Mandal (2008), in his paper encompasses the present scenario of Khadi and Village industries in the North East States, particularly Arunachal Pradesh in relation to both development, problems and solutions. He suggested that top priority should be given to those SSI like KVIs which need light machine tools and other equipments in order to produce quality products because today's a State's progress is measured by the quality of goods it produces.

Srivastava and Syngkon (2008), study makes an in depth analysis of the development of SSI sector in rural areas of the States of NER, India. There is also focuses specially on the role and profile of entrepreneurs .The findings reveal that the manufacturing, assembling, processing activities is the dominant group among the various SSI activities in NE States ,in rural and urban areas.

Govindappa and Geetha (2011), in their study on socio-economic back ground and problems of entrepreneurs in industrial estate, a case study of industrial estate of Devanggeri District of Karnataka studies 30 entrepreneurs selected randomly from manufacturing units and found that participation of women in entrepreneurial activity was nil. Majority of entrepreneurs were from

nuclear family and were below 40 years of age.

S. S. Khanka (1998), observed that the development of Small Scale Industries in Assam is low because of inadequate infrastructural facilities, problems of production, financing and marketing. Government should create facilities like communication, power, roads etc. In State level also, survey should be carried out to optimize possibilities to develop industries. Local entrepreneurs should be motivated to start up new enterprises in their region. Government should also take up steps in the region for better industrialization.

Ruddardatt and K.P.M. Sundharam (2006), stated that small enterprises need to be developed along with large enterprises. This is also the accepted argument of the Government. From a long point of view, the capacity of small manufacturers to become technically progressive and efficient and develop competitive strength shall be the only justification for their continuance.

It is evident from the above studies that even through there are recorded works in respect of MSMEs funding by commercial banks for Sonitpur District, yet those works have not dealt elaborately with the impact of bank financing on the growth and survival of the MSMEs. There exists a research gap in so far the impact of financing of MSMEs is concerned in Sonitpur, prior to as well as after declaration of the MSMED Act 2006. The fact that the Government Central as well as State, have adopted various measures for development of MSMEs cannot be denied but no recorded work has been done so far to substantiate the impact of these measures on the enterprises, specially the impact of credit flow, both long term and short term to this sector. The present study aims to explore the role of the commercial in survival growth and rejuvenating of the MSMEs.

### **Analysis of Primary Data and Secondary Area**

Financial assistance is considered one of the important components for proper growth of MSMEs Sector. There for without governments' support it is impossible to the enterprises for running their production and other business activities. It also depends on utilization of resources. The researcher use by the word 'resources' is finance or capital. In order to examine the resource use sufficiently and capital intensity we are calculating following ratios. These arithmetic ratios are used many times by various researchers for their research work. 1) Capital Labor Ratio or Capital intensity = Capital / Labour 2) Productivity of Labour PL = Out-Put / Labour 3) Productivity of Capital (PK) = Out-Put /

Capital. Capital-Labour ratio reveals the amount capital invested per unit of labour which helps us to examine whether MSME units are labour intensive or not. Out-put capital ratio implies the amount of labour produced per unit of capital.

For labour productivity, labour inputs based on man hours are more appropriate measure of productivity, but due to non-availability of data regarding man hours, we are taking into consideration numbers of workers engaged in the activity. When we come to capital it can be classified into fixed capital and working capital. In the case of MSMEs on which our study is concentrated, needs less fixed capital and working capital occupies a prominent place in the production process. So we think it more appropriate to take into account the overall capital which is termed as productive capital

Let. Productive Capital = Fixed Capital + working capital. To get net profit we have subtracted 4Percent of value of fixed capital from the gross profit.

Net Profit = Gross Profit - 4Percent of the value of fixed capital.

### Capital Labor Ratio

Capital Labour ratio defines the amount of capital employed per unit of labor. If the capital employed per labor is low, it means that the units are labour intensive. For MSME units to provide more employment opportunities it is necessary that they should be labour intensive. To ascertain it we have calculated capital labour ratio of the sample unit in Table 6.1.

TABLE – 3

#### FREQUENCY DISTRIBUTION OF CAPITAL-LABOR RATIO OF SAMPLE UNITS.

| Range of Capital Labour Ratio<br>Rs in Lakhs | Fixed Capital/ Labour<br>No of units | Productive Capital/Labour<br>No of units |
|--|--------------------------------------|--|
| 0-1  | 24                                   | 24                                       |
| 1.1-2  | NIL                                  | NIL                                      |
| 2.1-3  | NIL                                  | NIL                                      |
| 3.1-4  | 01                                   | 01                                       |
| Total  | 25                                   | 25                                       |

Source: *Field Data.2020*



Out of 25 units, 2 units undertake job work (Lubricant), so it is not possible to calculate the capital-labor for those two units. We have calculated the capital-labour ratio for 23 units. It is clear from the table 6.1 that K/L ratio in terms of both fixed capital and productive capital is less than 1 in 24 cases. Minimum fixed capital necessary per unit of labour is less than Rs. 100. Total 25 units have provided gain full employment to 348 persons including the self employment of employment. So the average employment provide by each unit works out to 13.92.

### Gross Productivity of Labor (GPL) and Gross Productivity of Capital (GPK)

In order to measure the contribution of labour and capital we have worked out capital as well as labor productivity. Here we have calculated output (sales) / capital and output labour ratios is reflected in Table 6.2

**TABLE 4**  
**FREQUENCY DISTRIBUTION OF GROSS PRODUCTIVITY OF LABOUR AND CAPITAL.**

| Productivity Range<br>Rs in Lakhs | Gross Productivity of<br>Labour(GPL)<br>No of units | Gross Productivity of<br>Capital(GPK)<br>No of units |
|-----------------------------------|---|--|
| 0-1                               | 21  | 6  |
| 1.1-2                             | 04  | 3  |
| 2.1-3                             | NIL   | 5  |
| 3.1-4                             | NIL   | 5  |
| 4.1-5                             | NIL   | 1  |
| 5.1-6                             | NIL   | 1  |
| 6.1 And above                     | NIL   | 1  |
| <b>Total</b>                      | <b>25</b>   | <b>22</b>  |

Source: *Field data 2020*

### Schedule Commercial Banks in Financing MSMEs in Sonitpur District of Assam

Banks have an important role in play in stimulating economic development of a state or a country. In Assam the widening net work of schedule commercial banks has been playing a crucial role in mobilization of fund. Bank offices of scheduled commercial banks in Assam stood at 1434 of which

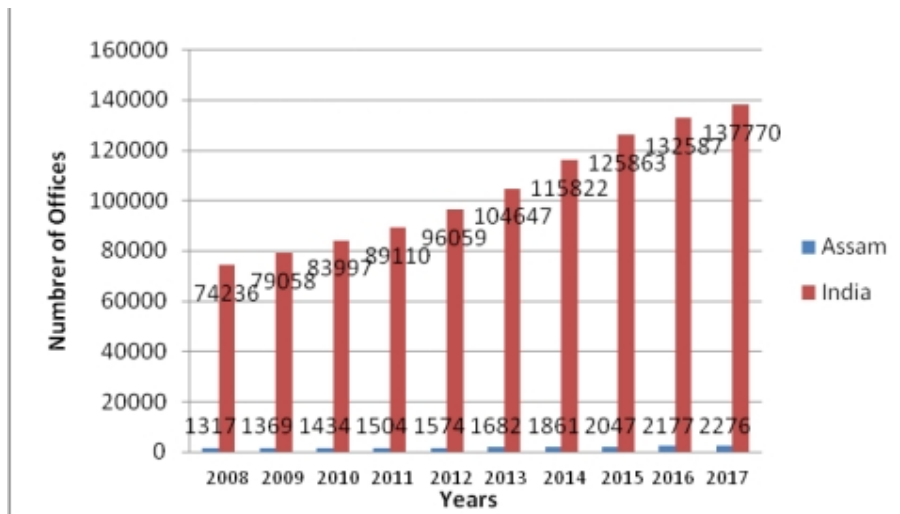
399 were Regional Rural Banks, the average population covered per Bank branch office in the state was around 2100 (Statistical Hand Book of Assam 2010 -2011) which is quite unsatisfactory in comparison to the all Indian average of 14000 population during the same period. At the end of March 2017, there were 2276 bank offices in Assam. Out 46 Percent percent offices were in rural, 28 Percent in semi - urban 26 Percent were in urban areas. The growth of aggregate deposits in the State was 17.8 Percent compared to 6.6 Percent growth in the previous year Growth of the bank credit was calculated at 14.3 Percent during the year ending March 2017 compared to 18.8 percent growth of aggregate credit in the previous year (Economic Survey Assam 2017-2018). The growth of the schedule commercial banks of Assam and India is reflected in the Table 6.3

**TABLE-5**  
**GROWTH OF SCHEDULE COMMERCIAL BANKS OF ASSAM AND INDIA**  
**(AS ON MARCH, 2017)**

| Year | No of offices |        | Deposits (Rs in crore) |           | Credit (Rs in crore) |          |
|------|---------------|--------|------------------------|-----------|----------------------|----------|
|      | Assam         | India  | Assam                  | India     | Assam                | India    |
| 2008 | 1317          | 74236  | 31666                  | 3228817   | 13057                | 2394566  |
| 2009 | 1369          | 79058  | 39427                  | 3937336   | 15115                | 168977   |
| 2010 | 1434          | 83997  | 49549                  | 4601926   | 18311                | 3345619  |
| 2011 | 1504          | 89110  | 59101                  | 5426510   | 21053                | 4076868  |
| 2012 | 1574          | 96059  | 67455                  | 6174147   | 25171                | 4821527  |
| 2013 | 1682          | 104647 | 77730                  | 7051332   | 28576                | 5506496  |
| 2014 | 1861          | 115822 | 85069                  | 8028220   | 31713                | 6264290  |
| 2015 | 2047          | 125863 | 97378                  | 8922111   | 35911                | 6878472  |
| 2016 | 2177          | 132587 | 103794                 | 9659968   | 42671                | 7520929  |
| 2017 | 2276          | 137770 | 122307                 | 107514386 | 48776                | 79270028 |

Source : *Economic Survey of Assam ( 2016-2017 )*

**FIGURE-1**  
**GROWTH OF YEAR SCHEDULE COMMERCIAL BANKS OF ASSAM AND INDIA**



The expansion of banking facilities in the State over the years has increased of volume of deposits and also disbursement of credit. The aggregate deposit has increased to Rs. 122307 crore in March 2017. The volume of deposits has been increased by 17.84 Percent in Mach 2017 over the previous year. The per capita deposit in the State has been increased from Rs. 33267 in March 2016 to Rs.39201 in March 2017. Like deposit, disbursement of credit by Schedule Commercial Banks also recorded an impressive growth in Assam. The total volume of credit disbursed by banks has been increased to Rs, 48776 crore in March 2017 from Rs, 42671 crore in March 2016 thereby recorded a growth of 14.31Percent. However the credit disbursement by Scheduled Commercial Banks is only 0.62Percent to total credit disbursed in the country as a whole during March 2017.

### Credit -Deposit Ratio

The Credit- Deposit ratio of all Scheduled Commercial Banks in Assam has reduced from 41.1 percent in 2015-2016 to 39.9 percent in 2016-2017 (March, 2017). The Credit-Deposit Ratio of all Scheduled Commercial Banks in Assam, however, remained far below when compared with the All Indian ratio. During the year 2016-2017 the Credit -Deposit Ratio of all Scheduled Commercial Banks in Assam was 39.9 percent compared to 73.7 percent at the all India level. The Credit and Deposit

ratio of schedule Commercial Banks in Assam and India is reflected in the Table -6.4.

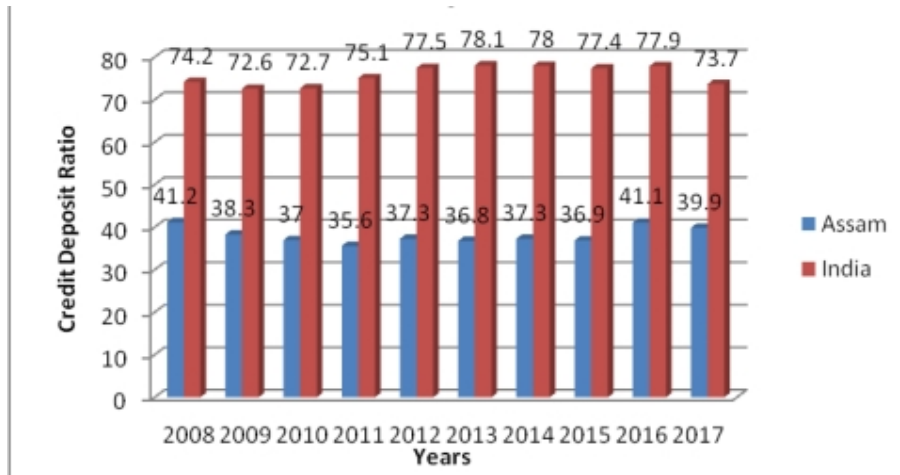
**TABLE - 6**  
**CREDIT DEPOSIT RATIO OF ALL SCHEDULED COMMERCIAL BANKS IN ASSAM**  
**AND INDIA**

| Year  | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------|------|------|------|------|------|------|------|------|------|------|
| Assam | 41.2 | 38.3 | 37.0 | 35.6 | 37.3 | 36.8 | 37.3 | 36.9 | 41.1 | 39.9 |
| India | 74.2 | 72.6 | 72.7 | 75.1 | 77.5 | 78.1 | 78.0 | 77.4 | 77.9 | 73.7 |

- Calculated from Secondary data published in Economic Survey, Assam 2016 -2017

Source: *Economic survey of Assam - 2016-17*

**FIGURE 2**  
**CREDIT DEPOSIT RATIO**



Credit to the MSME sector is ensuring a part of the priority sector lending by banks. Banks are required to compulsory ensure that defined percentage [currently 40 Percent] of their overall lending in made to priority sectors as classified by the Government. There are a large number of commercial banks and financial institution in financing MSMEs. The leading commercial bank is UCO Bank. The following table reflects total numbers of commercial banks in Sonitpur District of Assam.

### **Finding**

1. The government use directed credit to channelize credit to preferred sector of MSME. As a result the Credit Deposit Ratio of commercial Bank increased 39.9 percent to 41.2 percent during the period 2008 to 2017.
2. The Net Bank Credit in India has been increased 74.2 percent to 77.9 percent during the period 2008 to 2016. Again it declined 73.7 percent in the year 2017.
3. Credit Deposit Ratio in Sonitpur District have been raise from 47.5 percent to 50.3 percent during the period 2013 to 2017.
4. State level data also revealed that the amount of utilized MSME credit is less than that of the unutilized total bank credit as in the case of national level data. In the state level credit deposit ratio is 0.62 percent of all India level.

### **Policy Recommendation and Conclusion**

In summary it may be state that to promote MSME it is very much necessary to have a comprehensive policy supported by proper and adequate availability of credit by Commercial banks and other financial institutions, so that the units can work up their capacity. Considering the findings of field survey, problems and suggestions of both banks and beneficiaries, it would like to give some policy recommendation in order to make MSME more beneficial to targeted MSME units.

1. In the context of increased needs for credit for MSME sector, commercial banks should provide more financial assistant to this sector. In order to bring co-ordination between working and fixed capital it is necessary for the bank to provide composite loans.
2. In context of increased competition and increased need of MSME it is necessary to provide composite loans.
3. To available credit facilities in better manner, specialized banks should proper credit plan for the particular areas.



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