

SOURCES OF FINANCE OF MICRO AND SMALL ENTERPRISES IN BARAK VALLEY, ASSAM

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ABSTRACT

Micro and small enterprises not only generate employment but also utilise optimum resources, increase total production and exports and help in balanced regional development of the country. Finance is the life blood of the enterprise. The enterprise can fulfil its financial needs from long term sources of finance and short term sources of finance. Therefore, the present study has evaluated the sources of long-term finance of micro and small enterprises in Barak Valley. The study has also evaluated the sources of short-term finance of micro and small enterprises in the Valley. The enterprises which are registered with District Industries and Commerce Centers of the three districts of the Valley namely Cachar, Karimganj and Hailakandi districts as on 31-3-2012 and which are functioning have been studied in the present study. Sample size of the study is 246 of which 81.71 % are micro enterprises and 18.29 % are small enterprises. The study is based on the primary data. The sampling technique of the study is 'convenience sampling'. The study found that the enterprises of the Valley generally use 'own capital' as their major source of both long term finance and short term finance.

Keywords: Long Term Sources, Short Term Sources, Own Capital, Banks and Non-Banking Financial Institutions.

INTRODUCTION:

Micro and Small Enterprises (MSEs) play important role for the development of our economy. Finance is the oxygen of the industry and industrial financing is a current issue (Raul, 1997). Finance is a key input of production, distribution and development and it is described as the “Life blood” of an Industry and is a pre-requisite for accelerating the process of industrial development (Desai, 2005). Therefore, the enterprise must maintain proper finance to run the enterprise efficiently. The enterprise can fulfill its financial requirements from the sources of finance. Generally, the sources of finance can be categorized into two categories namely sources of long term finance and sources of short term finance. The present study has evaluated the sources of long term finance and sources of short term finance of micro and small enterprises in Barak Valley. Most of the enterprises of the valley are micro and small enterprises and least of them are medium and large enterprises. Therefore, the thrust of development has been more in the direction of micro and small enterprises. Despite a lapse of more than a decade it is really unfortunate that no study has been undertaken by any agency or any researcher on the sources of finance of micro and small enterprises in the Valley. The present study has endeavoured in its modest way to examine the position in detail.

LITERATURE REVIEW:

Dhar (1958) in his study found the sources of external finance of the small scale industries. He found that the relatives, friends and traders are the important sources of external finance of these industries. Bhattacharjee (1987) observed shortage of institutional finance. It was found that these SSI industries in general had to remain content with low capital base, depends more on non - institutional agencies like money lenders, friends and relatives. Beck, Kunt and Maksimovic (2002) found that Larger firms with financing needs are more likely to use external finance compared to small firms. Their results also indicated that these firms are more likely to use external finance in more developed financial systems, particularly debt and equity finance. They observed that exporters are more likely to use bank and operations finance and foreign firms are more likely to issue equity but less likely to use operations finance. Dabo (2006) revealed that 28.3% of the respondents use only personal savings and finances to commence their business ventures and more than 71% of the respondents use a mix of other sources of finance at start-up in some cases together with the personal savings. Out of the 358 respondents who use other sources of finance at start-up, 44.69% use financing from friends and relatives at start-up, 29.33% obtain finance from moneylenders and cooperative associations they belong to, while only 12.01% obtain finance from banks. William, Gartner, Casey, Frid, John and Alexander (2012) found that 83.8% of the nascent entrepreneurs contribute personal funds to their start-up effort and 31.8% of respondents use external sources. Friends and family as a source of capital play a minor role in funding new ventures. Qian, Qian, Sankar, Chakrabarti and Allen (2012) examined the financing patterns of different types of firms in India. They revealed that large Indian firms obtain 46.6% of their annual total financing from internal sources. These sources generate as much as over 60% of all financing for listed manufacturing firms but only 28% of all financing for unlisted manufacturers. Among external financing channels, equity and debt from banks and institutions each accounts for almost 17% of total financing of large firms. They found that both manufacturing and services unlisted firms rely more on bank loans than listed firms. Beena (2012) analysed the financing pattern of Indian corporate sector during 1990-2009. She also identified the pattern of resource mobilisation of Indian firms. He observed that the share of internal financing has increased sharply during 2001-2005 and it accounted for 58 per cent but it has declined during 2006 -2009 to the level of 38 per cent which is still higher than the level of 26 per cent during 1991-94. Christian, Dietmar, Andre and Gygax (2013) revealed that 34 % of family firms intend to use debt financing for succession expenditures. The owner manager’s attitude toward debt is neutral and positively correlated with his or her financial knowledge, debt usage experience and the size of the firm. Moreover, the existence of an advisory board is positively correlated with an owner-manager’s attitude towards debts and the number of shareholders.

OBJECTIVES OF THE STUDY:

The broad objective of the study is to evaluate the sources used by micro and small enterprises in Barak Valley, Assam. However the sub-objectives of the study are as follows-

1. To evaluate the sources used for long-term finance by micro and small enterprises in Barak valley, Assam.
2. To evaluate the sources used for short-term finance by micro and small enterprises in Barak valley, Assam.

METHODOLOGY:

The study is basically based on primary data. The sampling technique of the study is 'convenience sampling'. Population has been identified particularly for micro and small enterprises on consultation with District Industries and Commerce Centre (DICC) officials and permanent registers of DICCs of the three districts viz., Cachar, Karimganj and Hailakandi district. Total number of registered micro and enterprises which is the population of the study is 3161. Sample size of the study is 246 which is calculated through sample size calculator macorr with 95 percent confidence level and 6 percent sampling error.

Table 1: District-wise Distribution of Population and Sample Size

Districts	Population (No. of registered enterprises as on 31-3-2012)	Sample size
Cachar	1862	145
Karimganj	766	60
Hailakandi	533	41
Total	3161	246

Source: General Managers, DICCs, Cachar, Karimganj and Hailakandi district.

Of the 246 sample enterprises, 145, 60 and 41 enterprises have been selected from Cachar district, Karimganj district and Hailakandi district respectively through 'proportionate stratification method'. The primary data has been collected by field survey of the existing micro and small enterprises of Barak valley by personal interview method.

Table 2: Distribution of Sample Enterprises

Type of Enterprises	Number of Enterprises	Per cent
Micro	201	81.71
Small	45	18.29
Total	246	100.00

Source: Field Survey

Of the 246 sample micro and small enterprises 81.71 % are micro enterprises and 18.29 % are small enterprises (table-2).

RESULTS AND DISCUSSION:

Table 3: delineates the sources of long term finance of micro and small enterprises in Barak Valley.

Table 3: Sources of Long Term Finance of Micro and Small Enterprises

Sources	Major Source	Minor Source	No Source
Own Capital	184 (74.80)	48 (19.51)	14 (5.69)
Banks	73 (29.68)	53 (21.54)	120 (48.78)
Non-Banking Financial Institutions	7 (2.84)	29 (11.79)	210 (85.37)

Sources	Major Source	Minor Source	No Source
Friends	10 (4.06)	75 (30.49)	161 (65.45)
Family Members and Relatives	41 (16.67)	104 (42.28)	101 (41.05)
Professional Money Lenders	42 (17.07)	39 (15.86)	165 (67.07)
Government Grant and Subsidy	4 (1.63)	43 (17.48)	199 (80.89)

Note: Figures in parentheses denotes percentage of total micro and small enterprises.

Source: Field Survey

Table 3 reveals that 74.80% of the total micro and small enterprises have used ‘own capital’ as their ‘major source’ of long term finance, 19.51% of the enterprises used it as their ‘minor source’ of long term finance while only 5.69% of the enterprises have not used ‘own capital’ as their source of long term finance.

It further reveals that 29.68% of the total micro and small enterprises have used ‘banks’ as their ‘major source’ of long term finance, 21.54% of the enterprises used it as their ‘minor source’ of long term finance but 48.78% of the enterprises have not used ‘banks’ as their source of long term finance.

It is found that 2.84% of the total micro and small enterprises have used ‘non-banking financial institutions’ as their ‘major source’ of long term finance, 11.79% of the enterprises used it as their ‘minor source’ of long term finance while 85.37% of the enterprises have not used ‘non-banking financial institutions’ as their source of long term finance.

The table exhibits that 4.06% of the total micro and small enterprises have used ‘friends’ as their ‘major source’ of long term finance, 30.49% of the enterprises used it as their ‘minor source’ of long term finance and 65.45% of the enterprises have not used ‘friends’ as their source of long term finance.

It also exhibits that 16.67% of the total micro and small enterprises have used ‘family members and relatives’ as their ‘major source’ of long term finance, 42.28% of the enterprises used it as their ‘minor source’ of long term finance while 41.05% of the enterprises have not used ‘family members and relatives’ as their source of long term finance.

The above table displays that 17.07% of the total micro and small enterprises have used ‘professional money lenders’ as their ‘major source’ of long term finance, 15.86% of the enterprises used it as their ‘minor source’ of long term finance but 67.07% of the enterprises have not used ‘professional money lenders’ as their source of long term finance.

Moreover, 1.63% of the total micro and small enterprises have used ‘government grant and subsidy’ as their ‘major source’ of long term finance, 17.48% of the enterprises used it as their ‘minor source’ of long term finance while 80.89% of the enterprises have not used ‘government grant and subsidy’ as their source of long term finance.

Table 4: Sources of Short Term Finance of Micro and Small Enterprises

Sources	Major Source	Minor Source	No Source
Own Capital	212 (86.18)	29 (11.79)	5 (2.03)
Banks	45 (18.29)	50 (20.33)	151 (61.38)
Friends	15 (6.10)	106 (43.09)	125 (50.81)
Family Members and Relatives	36 (14.63)	120 (48.78)	90 (36.59)
Professional Money Lenders	21 (8.54)	42 (17.07)	183 (74.39)
Trade Credit	77 (31.30)	66 (26.83)	103 (41.87)
Installment Credit	46 (18.70)	22 (8.94)	178 (72.36)
Customer Advance	4 (1.63)	97 (39.43)	145 (58.94)
Government Grant and Subsidy	2 (0.81)	31 (12.60)	213 (86.59)
Non-Banking Financial Institutions	0 (0.00)	8 (3.25)	238 (96.75)

Note: Figures in parentheses denotes percentage of total micro and small enterprises.

Source: Field Survey

Table 4 reveals that 86.18% of the total micro and small enterprises have used 'own capital' as their 'major source' of short term finance, 11.79% of the enterprises used it as their 'minor source' of short term finance while only 2.03% of the enterprises have not used 'own capital' as their source of short term finance.

It further reveals that 18.29% of the total micro and small enterprises have used 'banks' as their 'major source' of short term finance, 20.33% of the enterprises used it as their 'minor source' of short term finance but 61.38% of the enterprises have not used 'banks' as their source of short term finance.

The table exhibits that 6.10% of the total micro and small enterprises have used 'Friends' as their 'major source' of short term finance, 43.09% of the enterprises used it as their 'minor source' of short term finance and 50.81% of the enterprises have not used 'Friends' as their source of short term finance.

It also exhibits that 14.63% of the total micro and small enterprises have used 'family members and relatives' as their 'major source' of short term finance, 48.78% of the enterprises used it as their 'minor source' of short term finance while 36.59% of the enterprises have not used 'family members and relatives' as their source of short term finance.

The above table displays that 8.54% of the total micro and small enterprises have used 'professional money lenders' as their 'major source' of short term finance, 17.07% of the enterprises used it as their 'minor source' of short term finance but 74.39% of the enterprises have not used 'professional money lenders' as their source of short term finance.

Table 4 displays that 31.30% of the total micro and small enterprises have used 'trade credit' as their 'major source' of short term finance, 26.83% of the enterprises used it as their 'minor source' of short term finance while 41.87% of the enterprises have not used 'trade credit' as their source of short term finance.

Moreover, 18.70% of the total micro and small enterprises have used 'installment credit' as their 'major source' of short term finance, 8.94% of the enterprises used it as their 'minor source' of short term finance while 72.36% of the enterprises have not used 'installment credit' as their source of short term finance.

The above table delineates that 1.63% of the total micro and small enterprises have used 'customer advance' as their 'major source' of short term finance, 39.43% of the enterprises used it as their 'minor source' of short term finance and 58.94% of the enterprises have not used 'customer advance' as their source of short term finance.

The study reveals that 0.81% of the total micro and small enterprises have used 'government grant and subsidy' as their 'major source' of short term finance, 12.60% of the enterprises used it as their 'minor source' of short term finance while 86.59% of the enterprises have not used 'government grant and subsidy' as their source of short term finance.

It is found that no micro and small enterprises in the Valley has used 'non-banking financial institutions' as their 'major source' of short term finance while 3.25% of the enterprises have used it as their 'minor source' of short term finance and 96.75% of the enterprises have not used 'non-banking financial institutions' as their source of short term finance.

CONCLUSION:

The micro and small enterprises in Barak Valley have used long term sources and short term sources to meet the financial requirements of the enterprises. Most of the total micro and small enterprises in Barak Valley have used 'own capital' as their 'major source' of long term finance as well as short term finance. Least of the enterprises have used 'government grant and subsidy' as their 'major source' of long term finance. Most of the total micro and small enterprises in Barak Valley have used 'family members and relatives as their 'minor source' of long term finance as well as short term finance. Least of the enterprises have used 'non-banking financial institutions' as their 'minor source' of long term finance as well as short term finance. The study suggests that banks and non-banking financial institutions should provide more finance to the enterprises in the Valley. The government should also provide more incentives and subsidies to the micro and small enterprises in Barak Valley.

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