

## FINANCIAL INTERMEDIARIES BOOST MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

**Ajit Borah**

*Asstt. Prof. Dept. of Economics, Rukasen Collage, Bakalia, Karbi Anglong Assam.*

### Abstract

*The Micro, Small and Medium Enterprises (MSMEs) sector acts a vital role in the growth of our country. These enterprises are creating employment, export, gross industrial value of output, investment in fixed assets, contributing to GDP, boost manufacture, service and infrastructure sectors. Government performs a major role in various levels like local, state and federal levels in formulating new policies with an aim of empowering, encouraging and facility growth, development and performance of MSMEs. Financial Intermediaries (FIs) are institutions or firms that mediate or stand between lenders and borrowers. FIs focus on assisting the MSMEs to grow through soft loans and other fiscal incentives. The financial intermediaries also have been developed to encourage MSMEs on both theoretical and empirical grounds. Therefore, in this paper; an attempt has been made to study the role and performance of financial intermediaries in promoting MSMEs in India.*

**Keywords:** *Financial Intermediaries, Enterprises, Facilitating, Encouraging.*



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### Introduction:

Micro, Small, and Medium Enterprises have been considered an engine of economic growth and a key instrument for promoting equitable development of world economy for present millennium. The Govt. Of India has adopted a number of initiatives for the amelioration of MSMEs for increasing income generating activities, solving acute unemployment problem, reducing poverty, utilizing all natural and human resources optimally and earning more foreign exchange. Therefore, Government of India introduced the Micro, Small, and Medium Enterprises Development (MSMED) Act passed by the parliament in June 2006. Under the Acts, enterprises have been two categorized broadly in those engaged in – manufacturing and providing /rendering of services. The numbers of MSMEs functioning in India as per Quick Results of 4th All India Census (2006-07), in the registered and unregistered categories are 1.55 million (5.94) and 24.55 million (94.06) respectively. Moreover, MSMEs sector which can help realize the targets for proposed National Manufacturing Policy of raising the share of manufacturing sector in GDP from 16% at present to 25% by the of 2022. These enterprises also play a crucial role in increasing competitiveness and capital market system. They limit the large enterprises monopoly and

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offer complementary services and engage in fluctuation of modern economy in process of economic development. Although economic development is a real phenomenon, it cannot neglect its financial aspects. In modern economics using money, financial may be defined as the provision of funds at the time it is wanted (Paish, F.W.). Financial considerations have begun to dominate the field of production and industrial development. Emphasizing its importance Prof.Gregory says, "Finance is one of the most potent and almost the least impeded of the agencies integrating the modern world into a single economic system". Hence, Financial Intermediaries are institutions or firms that mediate or stand between two or more parties in a financial context. This Intermediaries/Institutions are basically two types i, e, Bank Financial Intermediaries (BFIs) which includes central, commercial banks and Non-Bank Financial Intermediaries (NBFIs) which includes insurance companies, mutual funds, investment companies, pensions funds, and discount houses etc.

#### **Objectives:**

The present study seeks to modest attempt to find out the role and performance of financial intermediaries in promoting MSMEs in India.

#### **Methodology:**

The present research study is based exclusively on secondary data which have been mainly published by RBI and MSMEs. Most of relevant data has been gathered from different monthly issues of "Reserve Bank of India Bulletin". We have also taken data from various issues of "Economic Survey" and "Annual Report of MSMEs". Moreover, the data for study has been collected from reliable different journals, books, magazines and website etc.

#### **Analysis and Findings:**

The terms "Financial Intermediaries" is a very wide and its covers a wide range of institutions from simple institutions like mutual savings societies, commercial banks, insurance, investment companies etc and specialized financial institutions such as development banks i.e. ,IDBI ,ICICI,SFCs etc. These specialized financial institutions have been established after independence in India to meet term requirements of the industrial sector to accelerate the industrial development of India. The aggregative function of all financial institutions developed the industrial positions of the country. The contribution of financial institutions in establishment of new project and expansion and modernisation of existing project in different sector, viz, private, public, joint and cooperative. Financial Intermediaries play a very important role in the functioning of a modern economy. It is

promote economic development and in the working of monetary credit policy. The tasks of financial intermediaries are three distinct and interdependent activities, namely, saving, finance and investment in the process of capital formation and their impact on economic development. These function essential in the separation of saving and investment in capitalist country. In India the size of savings is done by households and about half of its investment directly by them in physical assets. Thus, FIs are more numerous, varied, well-organised, geographically well-distributed and efficient, then it is more developed the financial infrastructure of an economy.

Financial Intermediaries occupy an important contribution in financing and developing MSMEs. There are many policies schemes set up by Government in order to help MSMEs, particularly to agricultural sector. FIs not only provide loans but also provide other facilities like purchase and sale of financial assets, management advices, training to employees, managing administration etc in other to promote MSMEs sector. From a financial institution point of view the purpose of extending development credit facility to the MSMEs is to ensure that these enterprises utilize the amount for the productivity purposes, generate surplus profit and repay the loans to the banks and financial institution from the surplus generated. Since the liberalization of the economy in 1991, MSMEs financing has broadened and its services intensified with the entry of private banks, local area banks, foreign banks, regional royal banks and cooperative banks, increased competition has lead to a rush for lending to MSMEs. The outstanding credit by the banking sector to the MSMEs is shown in the following Table: 1

As on last reporting Friday of March	<b>Table:1 Outstanding Bank credit to MSMEs in India(RS Crore)</b>			
<b>Year</b>	<b>Public sector Bank</b>	<b>Private sector Banks</b>	<b>Foreign Banks</b>	<b>All Scheduled commercial Banks</b>
2005	67,800	8,592	6,907	83,498
2006	82,435 (21.6)	10,421 (21.3)	8,430 (22.1)	1,01,285 (21.3)
2007	102,550 (24.4)	13,136 (26.1)	11,637 (38.0)	1,27,323 (25.7)
2008	1,51,137 (47.4)	46,912 (25.71)	5,489 (33.0)	2,13,538 (67.6)
2003	1,91,408 (26.6)	46,656 (0.0)	18,063 (16.6)	2,56,123 (19.9)
2010	2,78,398 (45.4)	64,534 (38.3)	21,069 (16.6)	3,64,012 (42.1)
2011(Provisional)	3,76,625 (35.3)	87,857 (36.1)	21,461 (109)	4,85,943 (33.5)
2012	3,96,343 (5.24)	1,10,514 (25.79)	21,760 (1.05)	5,28,617 (8.77)
2013	5,02,459 (26.71)	1,54,732 (40.01)	30,020 (37.95)	6,87,209 (30.00)
2014	6,15,976 (22.59)	2,00,138 (29.35)	30,020 (0.01)	8,64,135 (23.13)

Note: Figures in parenthesis indicate year-on-year growth

Source: Annual report 2014-2015, Ministry of MSMEs. (P-245)

From the above Table:1, it is observed that the rapidly and extent of financial assistance granted by banks and other financial institution in meeting the term requirements of MSMEs over the years has becomes a huge structure of credit arrangement spared over the country. Industrial financing has been envisaged as long term and continuous strategy for linking the flow of credit for the expansion of MSMEs sectors. Though, the institutional network for the industrial credit has grown substantially in qualitative terms. According to the Prime Ministers Task Force has recommended and RBI has mandated scheduled commercial banks to achieve, among others, 20% year-on-year credit growth to MSMEs sectors.

**Conclusion:**

From this study, we come to know that the role of financial intermediaries to help promote MSMEs in India. The financial has a specific policy for lending credit to MSMEs to all kinds of sectors such as venting, food, service, agriculture, manufacturing, production, factories. These institutions is that credit availability and accessibly among MSMEs has been improved to greater extend as government and MSMEs departments are refining and helping the financial institutions to credit facilities to MSMEs sectors in India. Thus MSMEs recognised the facilities and benefits given by the financial intermediaries and utilizes the opportunity to develop and the serve others. The financial intermediaries concluded that if the MSMEs were assumed with adequate credit in turn they will significantly contribute to reduction of poverty line and towards economic development in India.

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