

A Study on Investments in MSME Sector Leading to Sustainable Growth in The Region of Jharkhand

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Abstract

Jharkhand, being rich in mineral resources, housing some of the largest manufacturing concerns, is one of the most economically backward States. Micro, Small and Medium scale industries could bridge the gap between the large-scale industries and the unemployed population. The MSME sector can lead to sustainable development by fulfilling the objectives of creating jobs, improving lives while taking care of the environment.

This study aims to analyse the flow of funds in the MSME sector either for new ventures or for expansion of existing ones in Jharkhand thus helping in further planning for sector wise industry growth in the region.

Keywords: MSME; Financial Assistance; Banks; Sustainable Business; Developing Society.

Introduction

A nation moves on the path of development only when it is blessed with a large number of industries. The Micro, Small and Medium industries in the manufacturing as well as the services sector are a blessing for the unemployed as well as those who dream for a venture of their own with calculated risk, also known as start up business. The formation of a start up business is only possible when there is a proper source of Finance for the owner of the business so that he can put his ideas into practice in time.1[Astebro T.I,2003]. Also, in order to make the business a sustainable one, the one-time sunk cost or historical cost needs to be satisfied. There are various ways a business can be financed.2[Rao, 2010]. The most popular ones being the lending facilities offered by the cooperative and regional rural banks, as well as public and private commercial banks. In due course of time, when the business picks momentum and starts expanding its market, the profits earned can be further ploughed back into the business consequently, making the venture sustainable, taking into account its effects on the environment and society at large while continuing to be financially profitable. The Small and Medium enterprises can also be registered as start up Businesses in the form of one Person company with financial lending from the commercial banks. This will surely solve the mammoth economic problem of unemployment faced by the people of India and particularly of Jharkhand. There are already 6.33 billion MSME businesses operating in the nation, which add 29% to the GDP and employ more than 11 billion people. (Ministry of Micro S. a., 2020-21) Given the significance of this industry, banks should prioritise providing loans to MSME businesses

Purpose and objectives of the Study

The foremost among the challenges faced by the Government of Jharkhand is to attain sustainable growth, thereby reducing inequality and unemployment, which will ultimately lead to sustainable development of the State, which in turn is possible with a sustainable industrial growth in the state. Jharkhand got the status of an independent state on 15th November, 2000. It was separated from the then existing undivided Bihar. It is naturally blessed with huge forest and mineral resources. In fact, even the natives of this region are known to be the most honest and hard-working people. The large scale and mega industries here have been attracting people from all over the Country with lucrative job opportunities creating the best cosmopolitan atmosphere and a good living standard for the employees and their families. It comprises of some of the oldest and largest manufacturing concerns. In terms of natural mineral resources, it is also one among India's richest states.³[<http://www.jharkhand.gov.in>]

It is noteworthy to highlight in this context that Jharkhand is a wealthy region that is home to poor people.⁴[Stuligross, 2008] The residents of Jharkhand are under appalling socioeconomic conditions. Jharkhand faces certain major problems also called the paradoxes of Jharkhand. In the process of addressing these, when compared with the other two states (Chhattisgarh and Uttarakhand) that were formed around the same time in 2000 as well as with Bihar (from which the state bifurcated) and the rest of India it is found the Jharkhand is among the most economically backward states in India. In fact, according to an index developed by a panel headed by the ex-governor of Reserve Bank of India, Mr. Raghuram Rajan, Jharkhand is among the least developed states in India

Jharkhand being one of the richest states in mineral and forest resources and a hub for large and medium scale industries and with its hard working people should have been one of the most developed states in the country but it is one of the most under development states with its people among the poorest in the nation deprived of even the basic amenities of life.

Concentrating effectively on the growth of the MSME sector in Jharkhand could result in overall growth of employment opportunities for the people as well as financial and environmental sustainability in the long run. Village and small-scale industries are very important for Jharkhand. The reasons being, overcoming unemployment and disguised unemployment, to decentralize industries, to justifiably utilize the resources, to provide goods at affordable rates, to manufacture artistic items and handicraft, to increase the industrial production, to utilize the forest resources, to bring about equality in income distribution, to reduce the population pressure on agriculture and to revive the rural economy of the state.

Literature Review

Economic development is an on-going process and is not dependent on any particular sector. ⁵[Ductor, 2015] The level of industrial development of a country is the yard stick to measure its actual development. All other aspects of progress become meaningless if a country is technologically backward ⁶[Fagerberg, 2000]. As stated by Pt. Jawaharlal Nehru, "The growth of industry, big and small, is essential for any modern nation. ⁷[Chakraborty, 1992]

Industrial Development is a far more comprehensive process of economic development which focuses on the integrated growth of all other industries, including those in agriculture, electricity, transportation, and other services.⁸[Szirmai, Industrialisation as an engine of growth in developing countries, 1950-2005, 2012] We have different types of industries which include the large-scale capital intensive industries, the medium scale and the cottage and small scale industries. ⁹[Pandey, 2013]

The MSME sector has become a significant driver of the country's GDP. The share of MSME sector in total GDP grew from 35.13% in the financial year 2006-2007 to 37.54% in the year 2012-13 (Gade, 2018) According to the Ministry of Micro, Small, and Medium Enterprises, the percentage of MSME manufacturing in India's total gross manufacturing value production in the year 2018-19 and 2019-20 were 36.9% and 36.9% respectively. (Contribution of MSMEs to GDP, 2021) Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 was passed by the Indian government which allowed for the creation of a statutory National Board for the promotion, growth, and improvement of these businesses' competitiveness. (Micro, Small and Medium Enterprises Act, 2006, 2006)

MSMEs serve as auxiliary units to major businesses and have a significant positive impact on the country's socioeconomic growth.¹⁰[Mrs Ashu Katyal, 2015] Creation of job opportunities is the primary contribution of MSMEs towards economic growth ¹¹[Appasaba L. V., 2013] The growth engines that support the creation of jobs across genders, geographies, sectors, and skill sets are MSMEs (KUMAR, 2020) According to the 73rd round of the National Sample Survey (NSS), which was conducted in 2015–16, the MSME sector has been creating 11.10 crore employment nationwide, both in urban and rural areas. (Ministry of Micro, 2021-22)

Both existing and developing MSMEs in India struggle to obtain sufficient and timely financing. In India, it is the family, friends, and private lenders who account for 90% of all micro units' funding sources. The banks' financing of MSME has exhibited an increasing trend. However, for various reasons, lenders are hesitant to lend to this sector. Due to their low capital, sensitivity to market fluctuations, limited assets, and high death rates, the borrowers in this sector are considered to be high risk borrowers. Access to equity capital is also a real issue. Currently, there is a very small flow of equity money into this industry.¹² [Garg, 2014] On the one hand, the government is reportedly taking a number of steps to make it simpler to secure financing, yet access to credit remains a significant issue. (Maumita Choudhury, 2019)

The economies of all the countries rely upon the smooth operation of intricate and finely balanced systems of money and credit¹³[Tobin, 1963] where banks play a significant role. A bank is a type of financial institution that carries out a variety of tasks, which include taking deposits and disbursing loans for agricultural and industrial development etc. Banks play an essential part in the region's economic growth. ¹⁴[Drigã, 201

The primary responsibility of a bank is to connect the individuals who are in need for capital with those who have capital.¹⁵[Diamond, 2000]. Public Sector Undertaking banks have taken Banking to the remotest of Villages.¹⁶[Kaura, 2013] The Government's initiatives to make MSME loans easier will be a major factor in a bank's decision to channel MSME loans (Irfan Adhityo Dinutistomo, 2021) According to a joint report prepared by KPMG-Confederation of Indian Industry (CII), Indian banking sector was poised to become fifth largest by 2020. Agriculture has a major contribution towards the industry and the economy of Jharkhand ¹⁷[Stuligross, Resources, representation, and authority in Jharkhand, India, 2008] thus, leading to more of agriculture and food- based industries in the form of MSMEs. Banks get a higher rate of interest on loans to MSMEs because the interest rate on loans to small and medium-sized businesses is significantly higher than the interest rate on loans to major corporations (Mukesh Kumar, 2021) Due to the lack of publicly available information, MSMEs typically

are more opaque than large corporations. As a result, it becomes challenging for banks to evaluate the creditworthiness of MSMEs, which may discourage lending and cause lenders make greater demand for collaterals due to lack of information (Mund, 2020)

Materials and Methodology

The current study is based on extensive review of national and international journal articles related to the topic. The literature reviews have helped the researcher recognize the components which are required in the present study. The researcher has gone for exploratory research and the sources of information being secondary in nature. Information was gathered from the SLBC portal, various journals, and related articles in different magazines and related websites of the Reserve Bank of India and the Government of Jharkhand. The data so collected is compiled, analyzed and interpreted. Wherever necessary, relevant data is produced in the form of tables and graphs, so that the analysis can be understood without much trouble and some meaningful conclusions can be drawn.

Discussions

Table 1

As On:	No.of Accounts	Amount Disbursed (In lakhs)
31 st March,2014	102067	Rs.457578.00
31 st March,2015	100541	Rs.495802.00
31 st March,2016	175372	Rs.673724.62
31 st March,2017	236267	Rs.7,42,013
31 st March,2018	339696	Rs.10,33,795.2
31 st March, 2019	411309	Rs.9,28,595.47
31 st March,2020	598330	Rs.1012044.37
31 st March,2021	8,61,941	Rs.13,21,626.07
31 st March,2022	2,38,629	Rs.16,11,639.13

Data Source: SLBC Portal, Amount in lakhs

In table-1, we have with us data regarding loans provided by Banks for the MSME sector development in Jharkhand from the years 2011 to 2022. There are almost 40 banks including Public sector banks, Private Banks and the new Public sector Banks. In the recent years there is participation of small and micro level banks. The Regional Rural Banks and the Cooperative Banks are also included. This covers all 24 districts in Jharkhand.

The total number of accounts financed each year, is seen to be gradually increasing. Though the number includes loans disbursed for further investment in existing businesses still the increasing number is a positive sign of people setting up their own enterprises and are intending to be job providers in the society

The total amount provided as loan to businessmen for investing in the MSME sector in the last twelve years is, also seen to be increasing each year. There is no sign of fall in the amount disbursed during the 2020-21 when the economy was facing a slowdown due to covid 19 lockdown. The huge amount of loan disbursed is sure to have a multiplier effect in the economy as the profits earned will be divided among many stake holders and will also be ploughed back into the businesses.

The amount to be allocated for MSME sector development is decided after meetings held by the Lead Officers of all districts and State level Government Officials. **The Lead Bank** scheme was introduced by the Government of India and the Reserve Bank of India in December 1969, which heralded the “area approach” to banking. 18[Singh, 2012]

There are three Lead banks in Jharkhand namely, The State Bank of India for 7 districts, The Bank of India for 15 districts, and Allahabad Bank for the remaining 2 districts (SLBC(Jharkhand), 2022). Bank of India is the convener of the State level Banker’s committee in Jharkhand. 19[STATE LEVEL BANKERS’ COMMITTEE,]

Bank of India being the convener of the state level co-ordination committee is the Lead Bank for the state, and the members are the Lead Development Managers of all districts and State Level Government representatives. Once every three months, a meeting is held, where they examine various issues and come up with ideas for the expansion of the economy with the help of the banks. A certain amount is targeted for each sector.

In the MSME sector also we can see from the table 2, that in the meeting held, an amount is targeted to be disbursed as loan amount to Business Startups, Micro level, small and medium level industries to a particular number of account holders intending to do business. Loan is also given for the purpose of expansion of existing business. Whatever be the reason, the idea is to infuse capital in the economy so that some employment is generated, and also with multiplier effect, more money will be generated over years, and the people associated with those businesses have a better living hence, leading to sustainable development in the region of Jharkhand.

Actual amount of money disbursed in the form of loan to the Account Holders

Table 2

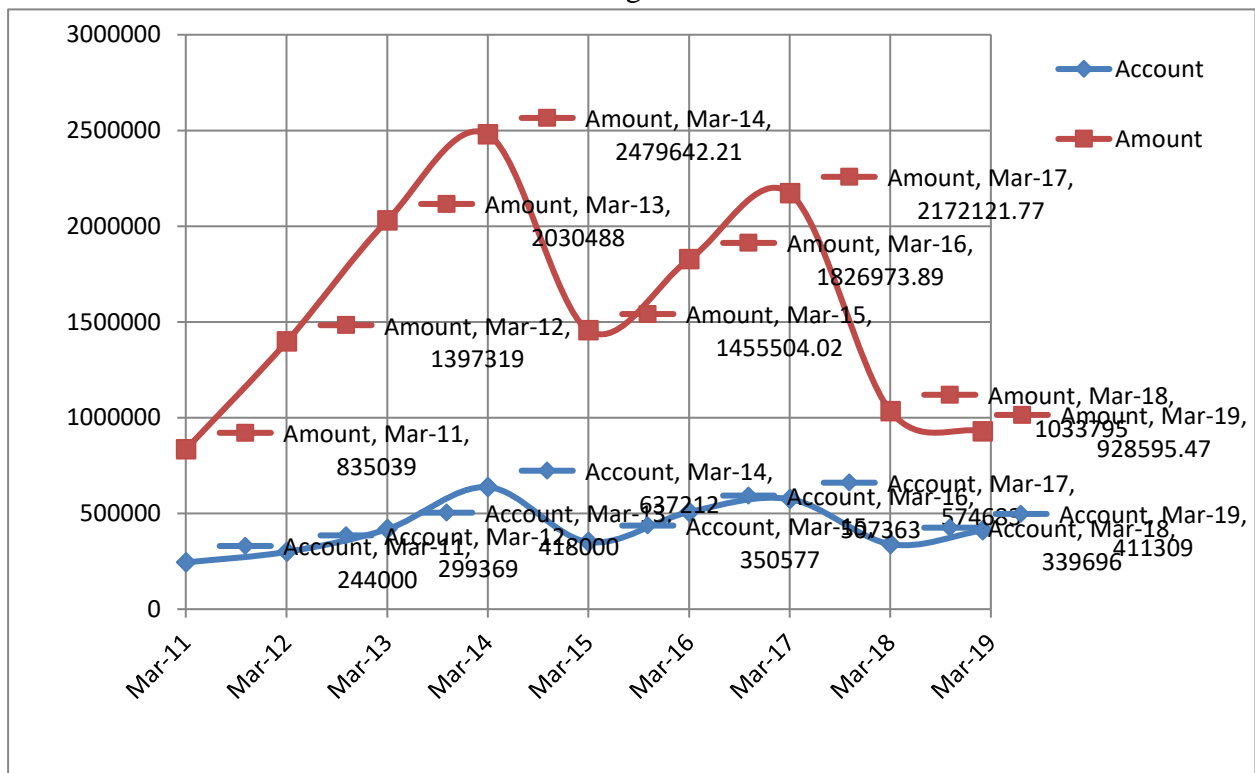
As on:	No.of Accounts Targeted	Targeted Amount	Actual no. of Accounts	Actual Amount Disbursed
31 st March,2014	1,76,668	494594.74	102067	457578.00
31 st March,2015	2,74,462	684470.35	100541	495801
31 st March,2016	2,54,902	754146.98	1,75,372	673724.62
31 st March, 2017	3,12,483	Rs.6,52,697	2,36,267	Rs.7,42,013
31 st March, 2018	2,60,349	Rs.7,32,952	3,39,696	Rs.10,33,795.2
31 st March, 2019	3,51,134	Rs.8,56,035.39	411309	Rs.9,28,595.47
31 st March, 2020	2,52,055	Rs.1026911.15	598330	Rs.1012044.37
31 st March, 2021	2,69,109	Rs.11,25,576.88	8,61,941	Rs.13,21,626.07
31 st March,2022	5,82,916	Rs.14,69,099.73	2,38,629	Rs.16,11,639.13

Amount in lakhs

It is seen that the targeted amount is less than the amount of loan actually disbursed in all the years presented in table 2. It is a positive indication of people being aware of opportunities available and ready to go for investments at their own risk. This is also a positive motivation for the government of Jharkhand to continue planning for further investment in the MSME sector for a sustainable economic growth in the state.

Loan provided to Micro, Small & Medium Enterprises

Fig 1



Data Source: SLBC Portal, Jharkhand

Amount in lakhs

Conclusion & Recommendations

We can conclude by saying that the commercial banks, the Regional Rural Banks and the cooperative banks have well played their role of lending money for development of industries in different categories depending upon the requirement of the entrepreneurial venture. Finance being the life blood of any business, [Fox, 1978] the financial institutions in accordance with the guidelines of the Reserve Bank of India, have sincerely pumped in this basic requirement to the MSMEs in Jharkhand during the last twelve years. The MSMEs, would surely bridge the wide disparity of wealth between the affluent and the poor and upgrade the standard of living of the people of Jharkhand. The SSI sector has a major contribution towards regional development while also serving a highly valuable economic function in terms of output, exports and employment generation. (Bhati, 2002)

Though Jharkhand being a backward state is witnessing huge investments in the MSMEs, leading to creation of jobs within the hometown. This in turn will have the benefits of development of the society

as a whole since the head of the family stays at home with his job or business within the vicinity of his residence which enables him to take care of his family responsibilities leading to a happy, stress free and healthy family members. This will save the population from engaging in social evils like drinking and gambling which is a part of the favourite pastime for the rural and urban population of Jharkhand.

No research is up to the full satisfaction of the researcher. There is always some limitations. Only the loans provided by the banks for industrial development have been taken into consideration. The NPAs have not been considered at all which would give a better and larger picture of the actual state of affairs in Jharkhand.

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