



Role of Commercial Banks for Development of MSMEs in Jorhat District, Assam: A Case Study

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ABSTRACT

Micro, small and Medium Enterprises (MSMEs) have emerged as a vibrant and dynamic component of Indian economy by virtue of their significant contribution to GDP, Industrial Production and exports. Being as a financial institution commercial bank plays a vital role for development of MSMEs in Assam. The state has vast potential for setting up of number of enterprises, based on its own resources, like-agriculture, horticulture, forest, jute, rubber, tea, medicinal plants, cane and bamboo, oil, gas, coal etc. The present study shall concentrate on the role of commercial banks for development of MSME in Jorhat district.

Keywords : Micro, Small and Medium Enterprise, Entrepreneurial Activities and Commercial Banks.

Introduction

Commercial Bank, have been playing a vital role in the economic development of different countries in the world. An efficient and modern banking system is a must for promoting savings and channelizing them in to diversified investment and help to achieve a faster rate of economic development. Banks contribute to speed up the economic growth of a country by mobilizing scarce financial resources for productive purposes. The scheduled commercial Banks (SCBs) in India Comprised 27 public Sector Banks (State Bank of India and its 6 associates, 19 nationalized banks and the IDBI Bank Limited), 7 new private sector banks, 15 old private sector banks and 31 foreign banks, 86 Regional Rural Banks (RRBs) and 1721 Urban Co-operative Banks (UCBs).

Micro Small and medium Enterprise (MSME) occupies an important role in accelerating the development process for growth and prosperity of our country. MSMEs contributions are mainly related with 95 percent of the total industries of the country, 45 percent of total industrial production, 80 percent of industrial employment and about 40 percent of country's export. The contribution of MSME to GDP of our country is about 8 percent. The Government of India and the concerning state governments have been adopting various initiatives for the development of MSME for income generating activities, providing employment opportunities, proper utilization of natural and human resources, eradicating the regional imbalance and earning more foreign exchanges.

Assam is famous for its unique natural and mineral resources. In the pre-independence period, Assam finds its place in the industrially developed map of the world. The crude oil was explored and India's first oil well was drilled and the first oil refinery in Asia and third in the world was established in Digboi. Assam tea industry is about 170 years old. Tea was first discovered in upper Brahmaputra valley by Robert Bruce in 1823. The development of tea industry led to the development of Coal and oil industries in Assam initially, and it was also the cause of development of railway in Assam, paving the way for infrastructure development (Baruah, P.2008). But at present Assam is amongst the industrially under developed states in the Country.

Research Methodology

The information collected for the purpose of this study is based both on primary and secondary sources. Primary

source includes field visit, interaction through discussion and interviews with entrepreneurs and bank officials in the study area.

Secondary information have been collected from Lead District Manager, United Bank of India, Jorhat, Reserve Bank of India, government publications, reports of various governmental agencies, news papers and magazines. The area of research survey is confined to Jorhat district in Assam only.

MSME in Assam

Assam is in better position of setting up of Micro, small and Medium Enterprise (MSME) in the North Eastern Region. The declaration of the North East Industrial Investment Promotion Policy 2007 (NEIIPP, 2007) has been another important feature for industrialization of the state. The Central Government has approved a package of fiscal incentives and other concession for the N.E. Region and Assam will be the leading state to exploit benefit from it. The state Government also announced state Industrial Policy, 2008 to provide more support to the entrepreneurs. The state government also announced its maiden tourism policy named 'Tourism Policy of Assam 2008 with its vision to manage comparative advantage in tourism resources and attraction in a sustainable and integrated manner to make Assam a major national and international destination. The total no of MSME in the state as per 4th census (up to 31st March 2010) is 6,03,541 which consists of 16.66 percent in manufacturing sector, 83.34 percent in service sector, generating total employment opportunities to 12,34,356 persons.

Performance of Commercial Banks in Jorhat District

Jorhat district is situated at the middle of Assam. The total geographical area of this district is 2,851 sq.km, which accounts for about 3.64 percent of state's total area and the population of this district stands at 10,91,295 as per census of India, 2011. Jorhat district is the major tea belt of Assam with 135 tea gardens in organized sector and many small tea gardens. Total number of small scale industries registered under the directorate of Industries and commerce in Jorhat district is 1943 in 2010. Jorhat district is famous for its tourism potentiality; mainly for the world largest riverine island Majuli. The MSME in this district is mainly confined with tourism related service sector as well as manufacturing sector viz., small scale industry. The entrepreneurs in tourism sector have taken up a number of tourism related services like setting up hotels and

restaurants, ayur village, old tea bungalow with gold course, tourist vehicles, tourist guide, selling of handicraft and hand-loom product etc.

Jorhat district records 28 number of commercial banks working with their 79 number of respective branch offices as on March 2011. The total deposit and advances of these banks as on 31st March 2011 has stood at Rs. 242.15 core and 81.13 cores respectively. The credit deposit ratio of these banks has been worked out at 36.40 percent which has been found as very poor. The table 1 shows the working position of commercial banks in Jorhat district.

Working Position of Commercial Banks in Jorhat District as on March 2011. (Amount in '0000' of Rupee)
Table-1

Sl. No.	Name of the Bank	No. of Branch	Total Deposit	Total Advance	CD Ratio
1.	Allahabad Bank	02	4565	1514	33%
2.	Andhra Bank	01	981	39	4%
3.	Bank of India	01	2086	763	37%
4.	Bank of Boroda	01	4356	1506	35%
5.	Canara Bank	01	6296	2892	46%
6.	Central Bank of India	03	9083	2530	28%
7.	Dena Bank	01	232	350	20%
8.	Indian Overseas Bank	01	1334	1084	81%
9.	IDBI	01	875	32	4%
10.	Indian Bank	02	13317	2440	18%
11.	Oriental Bank of Commerce	01	461	241	52%
12.	Punjab National Bank	03	7423	1699	23%
13.	Punjab & Sind Bank	01	2278	625	27%
14.	State Bank of India	14	99153	35396	36%
15.	Syndicate Bank	02	5398	1974	37%
16.	United Bank of India	13	40230	15446	39%
17.	Uco Bank	02	3657	3183	86%
18.	Union Bank	01	3628	1359	37%
19.	Vijaya Bank	01	5314	1414	27%
20.	Assam Gramin Bikash Bank	16	14185	7728	54%
21.	Assam Co. Operative Apex Bank	02	2827	418	15%
22.	Kanaklata Co. Bank	03	285	125	44%
23.	Federal Bank	01	5381	1626	30%
24.	ICICI	01	1307	506	39%
25.	Kotak Mahindra Bank	01	600	25	4%
26.	Axis Bank	01	2950	220	7%
27.	HDFC Bank	01	3605	3004	83%
28.	Indusind Bank	01	347	0	0%
	Total	79	2,42,154	88,139	36.40%

Source : Lead District Manager, (UBI) , Jorhat

Outstanding Credit of Commercial Banks in Jorhat district

Commercial banks are not interested to disburse loan in transport and service sector in this district. The outstanding credit in transport and other services in comparison to industry in Jorhat district is very poor. In 2008 the share of outstanding credit in transport and services was only 12.66 percent as comparison to 4.48 percent in 2006. The Table 2 reveals the outstanding credit in industry and transport and other services of schedule commercial banks in Jorhat District.

Outstanding Credit in Industry and Transport and other services of Schedule Commercial Banks

Table-2 (Rs. in lakh)

Year	Industry	Transport and other services	% of share in Transport and other services
2005	5,172	750	12.66
2006	13,712	644	4.48
2007	13,100	720	5.20
2008	12,749	834	6.14

Source: Basic Statistical Return of Scheduled Commercial Banks in India, RBI

Problems of MSME in getting loans from Commercial Banks

The commercial banks have their wrong notion that MSME in this district is not viable concept to earn profit. The limited number of branch offices of commercial bank in this district also creates the problem of availing easy financial assistance for entrepreneurs. The absence of easy availability of capital and finance has subdued the entrepreneurial spirit in that district. The study reveals the following major problems faced by entrepreneurs in obtaining credit from commercial banks in the study area.

- Lack of co-operation and the discouraging attitude of bank officials.
- Lack of provision of soft loan and tax relaxation to entrepreneurs.
- Limited number of subsidies schemes of banks.
- Rigid procedure and undue delay in sanctioning and disbursing loans.
- High rate of interest.

Limited numbers of entrepreneurs have been benefited with the subsidies schemes of commercial banks in Jorhat district. Majority of entrepreneurs engaged in MSME are not getting financial support of banks. They have been running their business depending on their self finance. Rural entrepreneurs have been suffering from acute financial problem. The sales turnover and profitability of the entrepreneurial activities are found satisfactory. The respondent also stated that the existing marketing facilities, and co-operation of government and other organizations are also not responsive to develop MSME in this district.

Problems of Commercial Banks

The lending operations of commercial banks must be in a profitable and safe manner. Lending is most profitable as well as the risky function performed by commercial banks. So it must be done efficiently and with a minimum risk. The problems faced by the bankers in financing MSME are:-

- Problem of defaulters.
- Misutilisation of loan amount.
- Lack of proper supervision and guidance.
- Problem of overdue.
- Willful defaulters.
- Burden of Non Performing Asset (NPA).

Conclusion

The state Assam has enough resources to develop the Micro, small and Medium Enterprises. Financial Institutions and commercial banks should actively involve them in developing MSME in the state and should provide financial assistance to implement macro and micro entrepreneurial activities. South India emerged as hub of economic activity, over the last decade, due to increasing numbers of banking facilities which has made financial services more accessible to the people and contributing to a healthier atmosphere for development (The Hindu 2010). We need a thriving, vibrant and strong enterprise, particularly in the micro and small enterprise segments for all round economic development of the state.

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