



A Role of Microfinance in Development of Textile MSMEs : A Study of Navsari SEZ

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ABSTRACT

The Small and Medium enterprises play a crucial role in the Indian economic structure due to its significant contribution in terms of output, exports and employment. In India, where the labour is ample and capital is scarce, the small sector has vast source of employment for millions of people. Keeping in view the importance of SMEs, the Indian government has given more importance to MSMEs in its five-year plans. The SMEs are still struggling by the issues of finance, marketing and low quality. Taking into account the enormous potential of the small sector, the entrepreneurs and the policy-makers must act collectively to facilitate rapid growth in this sector.

KEYWORDS

SMEs, Industrial Sector, Indian Economy and Labour.

INTRODUCTION:

Small and Medium Enterprises plays pivotal role in the Indian industrial sector. The distinctive feature of Small and Medium Enterprises (SMEs) are less capital intensive and can absorb more labour which created unprecedented significance to this sector. As per the Development Commissioner of Micro, Small and Medium Enterprises (2001), the sector has the credit of being the highest in employment, which stands second to agricultural sector. The nature of the working in this sector plays an important role to restrict poverty and propel sustainable growth and equal distribution of income in India. The SMEs play an important role in efficiently allocating the enormous labour supply and scarce capital by implementing labour intensive production processes. SME triggers private ownership, boosts entrepreneurial skills and their flexibility in responding quickly to changing market demand and supply conditions are noteworthy (Micro, Small and Medium Enterprises Development (MSMED) Act 2006).

The Micro, Small and Medium Enterprises Development [MSMED] Act 2006 facilitate the development of the enterprises and enhance their competitiveness. The act provides legal framework for "enterprise" which covers the manufacturing and service entities. The definition of medium enterprises is given in this Act. It combines the three tiers of the enterprises namely, micro, small and medium (Development Commissioner of MSME, 2009). Annual report of Micro, Small and Medium Enterprises of India (2011) states that, MSMED Act 2006 was enacted to address issues affecting Micro, Small and Medium Enterprises (MSMEs) and to synchronise the investment ceiling of the sector.

In India, the enterprises are being classified broadly into manufacturing and those engaged in providing or rendering of such services. These categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery for manufacturing enterprises and on equipment for enterprises providing or rendering services (Development Commissioner of MSME, 2009). The limit for investment in plant and machinery for manufacturing / equipment for service enterprises before and after October 2, 2006 is as under:

**TABLE 1:
CLASSIFICATION OF FIRMS**

Category	Investment (Plant and Machinery)	Service (Turnover)
Micro	less than 25 lakh	less than 10 lakh
Small	less than 5 crore	less than 2 crore
Medium	less than 10 crore	less than 5 crore

Source: Development Commissioner of MSME, 2009

Importance of SMEs the importance of small and medium enterprises (SMEs) is well understood by Indian economies. In many countries of the world majority of all businesses are SMEs and in many regions this proportion is much higher. SMEs are able of creating jobs with least amount of capital and in scattered locations which makes SMEs attractive to policy makers. However they remain as a heterogeneous group, in different organizational structures ranging from proprietorship to corporate, engages in factories to service organizations activities and with different definition in different countries and in some countries they varies from industry to industry.

LITERATURE REVIEW:

Maruthi Ram Prasad, Sunitha and Laxmi Sunitha (2011) conducted a study on Emergency and Impact of Micro - Finance on Indian Scenario. After the pioneering efforts by Government, Banks, NGOs, etc the microfinance scene in India has reached in take off stage. An attempt could be initiated to promote a cadre of new generation micro-credit leaders in order to strengthen the emergence of Micro-Finance Institution (MFIs), so as to optimize their contribution towards the growth of the sector and poverty alleviation.

Idowu Friday Christopher (2010) conducted a study to find the Impact of Microfinance on Small and Medium-Sized Enterprises in Nigeria. The fundamental objective of this study is to assess the impact of Microfinance on Small and Medium Enterprises (SMEs) in Nigeria. Simple random sampling technique was employed in selecting the 100 SMEs that constituted the sample size of the research. The findings of the study reveal that significant number of the SMEs benefitted from the MFIs loans even though only few of them were capable enough to secure the required amount needed. Interestingly, majority of the SMEs acknowledge positive contributions of MFIs loans towards promoting their market share, product innovation

achieving market excellence and the overall economic company competitive advantage.

Chiyah Boma Ngehnevu Forchu Zachary Nembo (2010) conducted a study on The Impact of Micro Finance Institutions (MFIs) in the Development of Small and Medium Size Businesses (SMEs) in Cameroon Microfinance is a term used by many in different domains to fight poverty.

OBJECTIVES:

The objective of this paper is to study the impact and role of micro finance on textile MSMEs in Navsari Special Economic Zone. This paper also focuses on service factors of Microfinance that have specific impacts on MSMEs and their capital, number of labour and turnover.

CONCLUSION AND RECOMMENDATION:

Correlations										
		Collateral	Customer Support	Interest rate	Transparency	Credit Policy	Behavioural Factors	Turnover	profit	No. of employee
Collateral	Pearson Correlation	1	.391*	-.293	-.848**	-.634**	-.084	.381*	.052	-.145
	Sig. (2-tailed)		.033	.116	.000	.000	.660	.038	.787	.445
	N	30	30	30	30	30	30	30	30	30
Customer Support	Pearson Correlation	.391*	1	.283	-.594**	-.449*	-.626**	.104	.201	.209
	Sig. (2-tailed)	.033		.130	.001	.013	.000	.586	.288	.268
	N	30	30	30	30	30	30	30	30	30
Interest rate	Pearson Correlation	-.293	.283	1	.326	-.176	-.684**	.075	.090	.032
	Sig. (2-tailed)	.116	.130		.079	.351	.000	.695	.636	.866
	N	30	30	30	30	30	30	30	30	30
Transparency	Pearson Correlation	-.848**	-.594**	.326	1	.572**	.089	-.277	-.084	.059
	Sig. (2-tailed)	.000	.001	.079		.001	.642	.139	.659	.757
	N	30	30	30	30	30	30	30	30	30
Credit Policy	Pearson Correlation	-.634**	-.449*	-.176	.572**	1	.219	-.493**	.203	.123
	Sig. (2-tailed)	.000	.013	.351	.001		.246	.006	.282	.518
	N	30	30	30	30	30	30	30	30	30
Behavioural Factors	Pearson Correlation	-.084	-.626**	-.684**	.089	.219	1	.006	-.358	-.183
	Sig. (2-tailed)	.660	.000	.000	.642	.246		.974	.052	.333
	N	30	30	30	30	30	30	30	30	30
Turnover	Pearson Correlation	.381*	.104	.075	-.277	-.493**	.006	1	-.644**	-.413*
	Sig. (2-tailed)	.038	.586	.695	.139	.006	.974		.000	.023
	N	30	30	30	30	30	30	30	30	30
Profit	Pearson Correlation	.052	.201	.090	-.084	.203	-.358	-.644**	1	.420*
	Sig. (2-tailed)	.787	.288	.636	.659	.282	.052	.000		.021
	N	30	30	30	30	30	30	30	30	30
No. of employee	Pearson Correlation	-.145	.209	.032	.059	.123	-.183	-.413*	.420*	1
	Sig. (2-tailed)	.445	.268	.866	.757	.518	.333	.023	.021	
	N	30	30	30	30	30	30	30	30	30

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2- tailed).

Above correlation clearly indicates that there is significant relationship between collateral and turnover indicating that, collateral for microfinance is only impacting factor on development of MSMEs that to particularly on turnover. Other factors like credit policy, interest rates, customer support and transparency are those factors which could not affect profit and employment of the MSMEs. Therefore it is suggested that those microfinance institutes interested to attract MSMEs, must develop good collateral policy and it is imperative for MSMEs to focus on the proper utilisation of the financial resources for their satisfactory performance.

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