

Cash Flow Impact in the Micro Finance and Small Scale Industrial Development

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Abstract – Microfinance is a form of financial services for entrepreneurs and small businesses lacking access to banking and related services. "Cash flow," as the term is now most commonly used in financial analysis. In the present study we study the impact of cash flow in the micro finance and small scale industrial development.

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INTRODUCTION

The money lenders used to provide credit to the poor people in India and around the world, at an exorbitant rate of interest since long. This kind of informal and chaotic sort of credit has progressively arrived at the type of microcredit, and many credit affiliations, cooperatives and banks have further enhanced it. The idea of microfinance was dispatched in the type of Grameen Bank in Bangladesh by Muhammad Yunus (2006) as an introduction. In the more extensive sense, microfinance has been quickly changed to include savings, credits, insurance and move of assets, which have appeared as a rustic finance upset. It is, therefore, imperative to understand microcredit and microfinance. The year 2005 was proclaimed by the United Nations as the "UN Year of Microcredit." In 2006, Mr. Mohammad Yunus and Grameen Bank Bangladesh were granted the Noble Peace Prize for their underlying endeavors to make monetary and social development through microfinance. (1) The Microfinance is, for about, a development focused on a world in which however many poor and close helpless family units as would be prudent have perpetual admittance to a satisfactory scope of great financial administrations, including credit, yet additionally savings, insurance, and move of assets. As a rule, a large number of those promoting microfinance accept that such access will assist poor with peopling escape destitution. For others, through the help of micro-business people and small businesses, microfinance is an approach to advance financial development, work and development.

Satya Sundaram (2007) has a complete report on Indian microfinance. Here, he contends that one of the innovative plans to help the poor is microfinance, however they have met with restricted achievement. He suggests that the self-help groups are

empowering the rural poor by providing them access to institutional credit and other relevant services. The SHGs lay stress on thrift, training and capacity building. Emphasis is placed on educating the members on social issues also. (2)

Radha G. Friedman (2005) conducted a study about the impact of Indian microfinance industry on poor especially women by taking two MFI s from south India; Jaya sangham Chennai and Prem Sangham Visakha Patanam. Both institutions are started its operations around 25 years back the functioning mainly concentrated among women. Possessed by its own agreeable bank in 2005, Jaya Sangam has in excess of 225,000 individuals in nine branches over the three southern conditions of Tamil Nadu, Andhra Pradesh, and Karnataka, and is considering expanding north to Bihar State. (3),

The functioning of an elective microfinance model is explained by ABAC Malaysia (2008). Traditional interest-based microfinance has consistently been dismissed in some Muslim people group, mainly on account of its rebelliousness with Islamic principles, especially as to the subject of the installment of interest or riba, which is disallowed under Shariah 64. This has prompted the disappointment of government initiatives to defeat destitution and advance monetary development through micro-financing somewhat. Islamic finance could assist with correcting regular microfinance 's shortcomings by focusing on achieving social equity and disallowing abuse and fighting destitution also. (4)

This study presents the impact of cash flow in the micro finance and small scale industrial development.

Concept of Microfinance

Microfinance is a term that lets the poor take advantage of generating economic growth opportunities. In India, microfinance has met the rural development efforts by providing small-scale shops, credit, insurance, and other financial administrations to poor and low-income families, strengthening ladies and building wealth. Microfinance in this manner fills in as a way to motivate the weak and gives a valuable tool to aid the monetary development process.

Henceforth, microfinance may essentially be called an institutional framework for providing small-scale credit support and usually associated with small meetings along with other complementary assistance, such as training and other relevant administrations for individuals with limited assets and skills to allow them to engage in financial activity. U.S. At the Microcredit Summit in November 1995, First Lady Hillary Clinton expressed: "Micro-endeavor is the center of development in light of the fact that micro-undertaking programs work-they lift ladies and families out of destitution. It is called micro, however its impact on individuals is full scale, we have seen that it takes just a couple of dollars, regularly as meager as 10 dollars, to enable a lady to gain independent work, lift her and her." (5)

Small Scale Industrial Development

A visionary, Bharatha Rathna Sir M. Visveswaraya, remarked, "Industrialize or die," suggesting the significance of manufacturing plants in the monetary development of any country. Economic growth is not feasible without the industries. Industries are again important in a developing economy like India. Industrial technologies are not only important for India, but there is also ample room for industrial growth. India has several favorable and beneficial factors for the rapid industrial growth. (6) "India must ensure its essential industries as a mother secures her kids against the entire world without being unfriendly to it," in the expressions of Mahatma Gandhi. (7)

The types, characteristics and spatial pattern of these small scale industries vary from one region to the other. Further, their role in the economy also differs from one area to another. Because of these variations, they become topics of detailed analysis and research. The present investigation is one such attempt in this direction. It is apt to begin the discussion with an analysis of the role of small scale industries in the economy of India.

► Characteristics and Advantages of Small Scale Industries

India's small-scale enterprises have a vital part to play in the country's economic growth. The policy of promontory rapid growth of small scale industries

both in the modern as well as traditional sectors is also due to a great extent their complementarity to large scale industrial manufacturing units (8). They differ from large scale manufacturing in terms of employment, capital, trade, skill and the role in rectifying regional imbalance.

• Low Capital Outlay

Small scale industries need low capital investment. In such cases of manufacturing activities, where there is scarcity of capital and economizing capital is essential small scale is the only effective solution. Because of this many such industrial units have been started with an investment of Rs. 25 lakhs to up to Rs.5 crore, that too obtained as loan from banks.

• Employment Potential

The labour investment ratio is high in the case of small scale industries. In general, these units provide more employment than the same amount of capital invested in large - scale industries. Further seasonal unemployment is a chronic problem in an agrarian society like India. These unutilized rural labour can be utilized productively in small scale industries.

• Limited Import Intensity

The small scale industries do not use heavy or sophisticated machineries. These units are not very much dependent upon imported machinery from abroad. These units often depend upon indigenous technology and utilize local resources.

• Skill Formation

A variety of goods are produced by small-scale industries. It does not require any sophisticated skill and managerial talent of engineers, technicians, and accounts, etc. However it may require minimum skills in the relevant manufacturing activity of a product.

• Short Gestation and Decentralization

The small scale industries have a very short gestation period. The time lay between investment and return in the case of small industries is very short and as such the project would give quick returns. These small scale industries prove to be more productive because new innovations or changes as per consumer choices can be brought about more easily and in short time.

• Export Potential

The small scale industries produce labour intensive products at a comparatively low cost. Some of the traditional goods like embroidery on bed sheets, table cloths, leather work, other works of art, metal works, etc have great demand in developed

countries. The value of exports of products of these units has increased from Rs. 393 crore in 1973 -1974 to Rs 2387.5 crore in 2009 -2010. Thus this industrial output occupies a considerable share in the India exports and is a major source for earning foreign exchange.

- **Better Distribution of Wealth**

The decentralization of industries in the small scale sector secures an even distribution of income and wealth. This disparity is the direct result of disproportionate ownership of asset by a small percentage of the population as well as due to imbalances in regional development. This is mainly because of the way that, contrasted with huge industries, small-scale industries are far reaching and have extraordinary potential for work. Huge scale industries will in general move extraordinary riches in a couple of hands, which in a communist example of society is bothersome. Furthermore, as for the situation of huge industries, small-scale industry won't make ghettos, housing issues, sterilization, disease and filth.

- **Balanced Regional Development**

In India there is a marked concentration of industries in a few large cities of different States like Mumbai, Kolkata, Chennai, Bangalore, Kanpur, Ahmedabad, Coimbatore, Baroda and Jamshedpur. Individuals move to these profoundly created focuses from country and semi-metropolitan zones looking for business and in some cases to gain a superior living, which eventually prompts numerous underhanded outcomes of overcrowding, contamination, ghetto creation, and so forth. This issue of the Indian economy is better illuminated by small-scale industries that utilization neighborhood assets and advance adjusted local development by dispersing industries in various pieces of the nation.

- **Provide Opportunities for Development of Technology**

Small scale industries have tremendous capacity to generate or absorb innovations. They provide ample opportunities for the development of technology and technology in return, creates an environment conducive to the development of small units. The entrepreneurs of small units play a strategic role in commercializing new inventions and products. It also facilitates the transfer of technology from one of the other. As a result, the economy reaps the benefit of improved technology.

- **Small Scale Industries position in India's economy**

With more than one billion inhabitants, India is a developing economy. Roughly 40 % of the populace lives underneath the destitution line, and 70 % of the

populace relies upon agribusiness for food. India's economic recovery depends on balanced economic growth in the agricultural and industrial fields. Given that capital and fiancé is scarce in India, India's government has promoted alternatives to agriculture and heavy industry, such as small-scale industry that can run on limited resources. An entrepreneur can run a small-scale industry without the need for expensive machinery and the latest technology. In semi-metropolitan and country territories with immature infrastructure, these small-scale industrial units can be developed. The goal is to utilize nearby crude materials to increase demand with the assistance of neighborhood aptitudes. Without affecting the main control of illiterate agribusiness, small-scale industries give work in country regions of India. The other advantages of small-scale units are that they require a short development time in the foundation, are less reliant on imported crude materials and machinery, and help meet a noteworthy part of the demand for buyer products. Such units likewise help to handle the issue of provincial inequalities in financial development (9).

Cash Flow

The executives, current and possible investors, current and expected banks, worker's organizations, financial examiners and legislative bodies are included in the rundown of those interested in financial information. Given the huge number of clients of financial information and the way that each gathering has desires not the same as and conceivably contradicted to those of other gatherings, it isn't hard to perceive any reason why the financial proclamations of a universally useful may not be completely good for any gathering.

The essential focal point of financial accounting has moved from the introduction of benefits and liabilities — the asset report — to the best possible determination and introduction of the aftereffects of activities — the income explanation, in an endeavor to stay up with business development in the previous century and to fulfill the demand for more valuable information. While numerous proposes and principles have been built up that help to determine an equitably estimated intermittent income, numerous financial information clients want to "modify" the financial proclamations as generally arranged and introduced by bookkeepers.

Contribution of currency

In micro finance and small-scale industries, cash commitments assume an imperative job. An association that offers microfinance administrations is a microfinance institution (MFI). MFIs run from small non-benefit associations to enormous business banks. Micro finance has assumed a key

function in savings preparation and financial development advancement.

Small Finance Banks:

“Small finance banks can perform all the operations of normal commercial banks, but at a smaller level targeting low-income segment”.

These trials brought about the rise of nongovernmental associations (NGOs) that gave budgetary administrations to poor people. In the 1990s, a considerable lot of these foundations changed themselves into formal monetary establishments keeping in mind the end goal to get to and on-loan customer investment funds, in this manner improving their effort.

The assessment of success in financial output of MFIs in microfinance has been studied extensively empirically.

Mersland and Strøm (2010) used profitability and discovered the reverse, namely that the average size of the loan is related to the average revenue. In either case, they also showed that, as the float of the company would suggest, the average loan size in the industry had not significantly increased for eleven years. (10) In their study the average profit (net annual income / number of credit customers) was used to calculate the financial profitability. Much increasingly late, Hudon, Perilleux, and Bloy (2012) used the surplus concept to assess their stakeholders 'circulation, using new knowledge to calculate the float of the job. (11)

Financial output also needs to be measured to see how productivity is affected when the focus of MFI governance is on different areas.

Sinha (2007) used the independence ratio to research the efficacy of the MFIs in India. Profitability is one of eight criteria used in assessing the annual ranking of leading MFIs in Latin America by Microfinance Knowledge Exchange, Inc. Resource advantage and interest advantage are used for the estimation of performance. Unfortunately the ranking does not consider the capacity for cash flow production or relying on external assets (rather than cash flows operating) (12).

Impact of Cash Flow in the Small Scale Industrial Development

► Retrospect Small Scale Manufacturing

Despite the zooming mortality rate, the small-scale industrial sector has made remarkable progress in various activities over the last 50 years. It contributes the most to the Indian economy in the form of employment, national domestic product contribution, foreign exchange earnings, etc. As in March 1995, the number of small- units in the country stood at 19

lakes in the organized sector, producing around 7,500 goods, some of which were focused on local crafts, skills and raw materials, while others employed sophisticated technologies and turned out products that competed even on the international markets.

► Post Independence Small Scale Manufacturing

Following independence, many entrepreneurship learning initiatives have begun to improve the entrepreneur's abilities, experience, and competence. Given the numerous initiatives to grow entrepreneurship initiated by the Govt. As well as non-governmental organizations, entrepreneurs face a range of difficulties in developing economically viable small-scale enterprises, such as the lack of physical facilities such as connectivity, transportation and storage, the lack of quality control measures, product availability, the lack of sufficient raw materials, the lack of managerial competence, the lack of marketing connections, the lack of quality control measures. Long and complicated processes to get institutional support, lack of Govt. Help and benefits, lack of sufficient funding and working capital and financial procuring issues as well as loans from different agencies (13).

Problems to Small Companies

A number of problems facing Small Scale Companies are as Poor Capital Usage, Inept management, Raw material shortages, Small Scale, Working capital issue, Export issues, Multiplicity of labor laws, Inability to comply with environmental legislation, Delayed payments, Poor labor relations, Pressure on government finances, Concentration of industrial units, Insufficient dispersal, Chronic disease, Lack of understanding and Governance intervention

MSME –

An International Overview The classification of MSMEs is not identical in different countries. The MSMEs have been classified by different countries as per purposes and stages of growth in the concerned country.

Storey (1994) has studied that there is no uniform and one definition of the small business. He has suggested maintain a balance between small and large enterprises. International Monetary Fund, World Bank and International Finance Corporation define MSMEs in their own way beside the official definition. The MSMEs have been classified on the basis of number of employees, total assets and turnover by World Bank.

► **MSME – Indian Perspective**

In India, MSMEs included Small Scale Industries (SSI), Small Business Finance (SBF) and Commercial and Institutional (C&I) segments with annual turnover of less than Rs. 25 Crore. Generally, these units are with fund based limits of up to Rs.5 Crore. Prior to the concept of MSMEs, banks particularly State Bank of India, were classifying these activities under SIB segment (Small Industries and Business Segment) and C&I Segment (Commercial and Institutional Segment).

• **Industrial Policies**

Earlier Indian economy had large presence of artisans and rural industries. These industries were dependent upon local raw materials, resources and markets. The main industrial arrangement was proclaimed after independence in 1948, which gave a premise to India's blended and controlled economy. Thus, private and public industrial sector emerged. In the year 1956 a new industrial policy resolution was declared with the social objective. The government reforms and liberalization in the economy with broad changes in industrial policy were declared in 1991 for making Indian industry internationally competitive for recording higher growth and making competitive advantages. With the introduction of new industrial policy in 1991, a substantial programme of deregulation has been undertaken. Except for five parts identified with wellbeing, vital and natural issues, industrial licensing has been canceled for all items. In the public segment, nuclear vitality and railroads have remained.

► **Production of micro, small and medium-sized enterprises Act 2006**

From the second of October 2006, a gradually comprehensive Micro, Small and Medium Enterprises Development Act, 2006 came into being, which provides legal classification to micro, small and medium-sized enterprises.

► **MSME Financing - Constraints and Strategies**

While going through the review of literature, some of the constraints being faced by MSMEs and strategies adopted and practiced have been studied as below:

Nambiar (1977) has pointed out non availability of adequate credit to priority sector as financing constraints and suggested that banks should provide easy access to credit in SSI after evaluating the feasibility of the projects. The banks should also help the entrepreneurs in selecting right type of projects.

Murthy, (1980) has pointed out that problems of Small Scale Industries are multidimensional and the

banks should act as friend, philosopher and guide for enhancing rural industrialization and balanced regional development.

Dias (1990) has found that the main financing constraint in accessing to institutional loan by the small enterprises due to lack of collateral and good accounting system by rural enterprises.

► **MSME Business Growth - Corporate Strategies**

Strategy is a comprehensive, integrated and innovative plan pertaining to strategic analysis of a corporate/ industry to achieve its ultimate objectives. When all is said in done, organization level methodologies and operational-level procedures dependent on dynamic are detailed, actualized and assessed in any association to accomplish the association's general objectives.

► **Modified Fatigue Impact Scale (MFIS)**

Weakness is a feeling of physical sleepiness and absence of vitality experienced every once in a while by numerous individuals. Yet, more frequently and with more prominent impact than others, individuals who have ailments like MS experience more grounded feelings of exhaustion. A rundown of explanations that depict the impacts of exhaustion is given underneath.

Financial intermediaries that offer types of assistance and produce homegrown assets must have the ability to fulfill high guidelines of execution to be effective. They should accomplish outstanding reimbursements and give clients access. And they have to expand on operational and monetary independence and expand client reach. Microfinance institutions need to find approaches to decrease their administrative expenses and additionally to widen their asset base in request to do as such. Improved and decentralized credit application, endorsement and assortment measures, for example, bunch advances that give borrowers obligations regarding a significant part of the advance application measure, permit advance officials to handle a lot more clients and in this manner diminish costs, can accomplish cost decreases (14).

Microfinance institutions could likewise go about as specialists among borrowers and the formal financial segment, just as on-advance supports sponsored by open division ensures (15). Business-like NGOs, for example by leveraged bank-NGO-customer credit lines, can quickly and luckily sell to commercial banks ways to fund micro-entrepreneurs. Under this plan, banks are making one mass loan to NGOs and the NGOs are packaging and recovering it into countless small loans at market rates (16). Much ongoing work on

this line is needed to perceive the most suitable model anyway express setting research is required.

CONCLUSION:

Essentially, we may infer that microfinance aims to determine the inadequacies and weaknesses of current financial institutions and development programs by providing the poor with appropriate and inconvenient free financing and also fills in the existing institutional framework as a gap filler to give small-scale financing to disadvantaged individuals.

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