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## Sources of Long Term Finance of Manufacturing and Service Enterprises in Hailakandi District, Assam

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### ABSTRACT

*Manufacturing and Service enterprises not only generate employment but also utilise optimum resources, increase total production and exports and help in balanced regional development of the country. The enterprise can fulfill its financial needs from long term sources of finance and short term sources of finance. Long term capital requirement depends on the size of the enterprises and capital required for fixed assets. If the size of the enterprise is large then the enterprise need large amount of long term capital, but if the size of the enterprise is small then the enterprise need small amount of long term capital. Therefore, the present study has evaluated the sources of long-term finance of Manufacturing and Service enterprises in Hailakandi district of Assam. The enterprises which are registered with District Industries and Commerce Center of Hailakandi district and which are functioning have been studied in the present study. Sample size of the study is 145 of which 65.52% are manufacturing enterprises and 34.48% are service enterprises. Sources have been identified on the basis of review of literature and pilot survey. The study is based on the primary data. The sampling technique of the study is 'convenience sampling'. The study found that the enterprises of the district generally use 'own capital' as their major source of long term finance.*

**Keywords:** Long Term Sources, Own Capital, Banks, Friends and Non-Banking Financial Institutions.

### Introduction

*Finance is a key input of production, distribution and development and it is described as the “Life blood” of an Industry and is a pre-requisite for accelerating the process of industrial development (Desai, 2005). Therefore, the enterprise must maintain proper finance to run the enterprise efficiently. The enterprise can fulfill its financial requirements from the sources of finance. Generally, the sources of finance can be categorized into two categories namely sources of long term finance and sources of short term finance. The present study has evaluated the sources of long term finance of Manufacturing and Service enterprises in Hailakandi District of Assam. Most of the enterprises of the district are Manufacturing and Service enterprises and least of them are medium and large enterprises. Therefore, the thrust of development has been more in the direction of Manufacturing and Service enterprises. Despite a lapse of more than a decade it is really unfortunate that no study has been undertaken by any agency or any researcher on the sources of finance of Manufacturing and Service enterprises in the District. The present study has endeavoured in its modest way to examine the position in detail.*

## **Literature Review**

Dhar (1958) in his study found that the relatives, friends and traders are the important sources of external finance of these industries. Bhattacharjee (1987) observed shortage of institutional finance. It was found that these SSI industries in general had to remain content with low capital base, depends more on non - institutional agencies like money lenders, friends and relatives. Beck, Kunt and Maksimovic (2002) found that Larger firms with financing needs are more likely to use external finance compared to small firms. Their results also indicated that these firms are more likely to use external finance in more developed financial systems, particularly debt and equity finance. They observed that exporters are more likely to use bank and operations finance and foreign firms are more likely to issue equity but less likely to use operations finance. Dabo (2006) revealed that 28.3% of the respondents use only personal savings and finances to commence their business ventures and more than 71% of the respondents use a mix of other sources of finance at start-up in some cases together with the personal savings. Out of the 358 respondents who use other sources of finance at start-up, 44.69% use financing from friends and relatives at start-up, 29.33% obtain finance from moneylenders and cooperative associations they belong to, while only 12.01% obtain finance from banks. William, Gartner, Casey, Frid, John and Alexander (2012) found that 83.8% of the nascent entrepreneurs contribute personal funds to their start-up effort and 31.8% of respondents use external

sources. Friends and family as a source of capital play a minor role in funding new ventures. Qian, Qian, Sankar, Chakrabarti and Allen (2012) examined the financing patterns of different types of firms in India. They revealed that large Indian firms obtain 46.6% of their annual total financing from internal sources. These sources generate as much as over 60% of all financing for listed manufacturing firms but only 28% of all financing for unlisted manufacturers. Among external financing channels, equity and debt from banks and institutions each accounts for almost 17% of total financing of large firms. They found that both manufacturing and services unlisted firms rely more on bank loans than listed firms. Beena (2012) identified the pattern of resource mobilisation of Indian firms. He observed that the share of internal financing has increased sharply during 2001-2005 and it accounted for 58 per cent but it has declined during 2006 -2009 to the level of 38 per cent which is still higher than the level of 26 per cent during 1991-94. Christian, Dietmar, Andre and Gygax (2013) revealed that 34 % of family firms intend to use debt financing for succession expenditures. Moreover, the existence of an advisory board is positively correlated with an owner-manager's attitude towards debts and the number of shareholders.

## **Objectives of the Study**

*The broad objective of the study is to evaluate the sources used by Manufacturing and Service enterprises in Hailakandi District, Assam. However, the sub-objectives of the study are as follows-*

1. *To identify the sources of long-term finance of Manufacturing and Service enterprises in Hailakandi District, Assam.*
2. *To evaluate the sources used for long-term finance by Manufacturing and Service enterprises in Hailakandi District, Assam.*

## **Research Methodology**

*The study is basically based on primary data. The sampling technique of the study is 'convenience sampling'. Population has been identified particularly for Manufacturing and Service enterprises on consultation with District Industries and Commerce Centre (DICC) officials and permanent registers of DICC of the Hailakandi district. Total number of registered enterprises which is the population of the study is 423 and Sample size of the study is 145 which is calculated through sample size calculator MaCorr with 95% confidence level and 6.6% confidence interval.*

*The primary data has been collected by field survey of the existing Manufacturing and Service enterprises of Hailakandi district by personal interview method.*

**Table 1: Distribution of Sample Enterprises**

Type of Enterprises	Number of Enterprises	Per cent
Manufacturing	95	65.52
Service	50	34.48
Total	145	100.00

*Source: Field Survey*

Table 1 reveals that out of the 145 sample Manufacturing and Service enterprises 65.52 % are Manufacturing enterprises and 34.48% are Service enterprises.

## **Scope of the Study**

The study area is *Hailakandi District*. Only the enterprises which are functioning have been studied in the present study. The enterprises which have at least one year of experience have been studied.

## **Results and Discussion**

### **Identification of Sources of Long-Term Finance**

Long term finance or long term capital is also called fixed capital which is required to acquire the fixed assets of an enterprise like land and buildings, plant and machinery, furniture and fixtures etc. The amount of long term capital required depends on the type of the enterprise and the investment required for fixed assets (Murthy, 1994). Long term funds should be used to finance fixed assets and permanent current assets (Palanichamy, 1992). Since Manufacturing and Service enterprises face difficulties in accessing external finance, they depend more strongly on internally generated funds. (Dinku, 2013).

For the purpose of *evaluating the pattern of financing in Manufacturing and Service enterprises in Hailakandi District, thirteen long term sources have been identified on the basis of review of literatures* (Dhar, 1958, Prasain, Singh & Singh, 2006, Dabo, 2006, Chakravarthi, 2007, Upadhyay, 2007, Das, 2007, Wachtel & Haselmann, 2007, Mylenko & Love, 2008, Ondieki, Nashappi, & Moraa, 2013, Murthy, 1994, Allen, Chakrabarti, De, Qian & Qian, 2012, Nishanth & Zakkariya, 2014 ). *These sources of long term finance are:*

- ❖ *Shares*
- ❖ *Debentures*
- ❖ *Bonds*
- ❖ *Banks*
- ❖ *Financial institutions*
- ❖ *Promoters and Founders*
- ❖ *Non-banking financial institutions*

- ❖ *Friends*
- ❖ Family income
- ❖ *Relatives*
- ❖ *Money lenders*
- ❖ Government agencies and
- ❖ Own savings

*Moreover, the researcher has conducted a pilot survey on 20 Manufacturing enterprises and 10 Service enterprises in Hailakandi District to identify the long term sources that are actually used by the Manufacturing and Service enterprises in the district and accordingly following eight long term sources have been identified for long term finance on the basis of importance of the sources as indicated by the review of literatures and pilot survey-*

- ❖ Own capital
- ❖ Banks
- ❖ Non-banking financial institutions
- ❖ Friends
- ❖ Family members
- ❖ Relatives
- ❖ Professional money lenders and
- ❖ Government grant and subsidy.

*After converging the above long term sources which are identified on the basis of review of literatures and pilot survey, the following seven long term sources have been selected for the purpose of evaluating the pattern of long term financing in Manufacturing and Service enterprises in Hailakandi District-*

- ❖ Own capital
- ❖ Banks
- ❖ Non-banking financial institutions
- ❖ Friends
- ❖ Family members and relatives
- ❖ Professional money lenders and
- ❖ Government grant and subsidy.

### *Evaluation of Sources of long-term finance*

The *pattern of long term financing in Manufacturing and Service enterprises in the Hailakandi District* has been evaluated on the basis of sources used for long term finance by Manufacturing and Service enterprises in the district. For that three levels of long term sources have been identified. These three levels are ‘major source’, ‘minor source’ and ‘no source’. Table 2 delineates the sources of long term finance of Manufacturing and Service *enterprises in Hailakandi District*.

**Table 2: Sources of Long Term Finance of Manufacturing and Service Enterprises in Hailakandi District**

Sources	Major Source	Minor Source	No Source
Own Capital	105 (72.41)	27 (18.62)	13 (8.97)
Banks	42 (28.97)	32 (22.07)	71 (48.96)
Non-Banking Financial Institutions	4 (2.76)	16 (11.03)	125 (86.21)
Friends	5 (3.45)	43 (29.66)	97 (66.89)
Family Members and Relatives	22 (15.17)	61 (42.07)	62 (42.76)
Professional Money Lenders	24 (16.55)	22 (15.17)	99 (68.28)
Government Grant and Subsidy	2 (1.38)	26 (17.93)	117 (80.69)

*Note: Figures in parentheses denotes percentage of total Manufacturing and Service enterprises.  
Source: Field Survey*

Table 2 reveals that 72.41% of the total Manufacturing and Service enterprises have used ‘own capital’ as their ‘major source’ of long term finance, 18.62% of the enterprises used it as their ‘minor source’ of long term finance while only 8.97% of the enterprises have not used ‘own capital’ as their source of long term finance.

It further reveals that 28.97% of the total Manufacturing and Service enterprises have used ‘banks’ as their ‘major source’ of long term finance, 22.07% of the enterprises used it as their ‘minor source’ of long term finance but 48.96% of the enterprises have not used ‘banks’ as their source of long term finance.

It is found that 2.76% of the total Manufacturing and Service enterprises have used ‘non-banking financial institutions’ as their ‘major source’ of long term finance, 11.03% of the enterprises used it as their ‘minor source’ of long term finance while 86.21% of the enterprises have not used ‘non-banking financial institutions’ as their source of long term finance.

The table exhibits that 3.45% of the total Manufacturing and Service enterprises have used ‘friends’ as their ‘major source’ of long term finance, 29.66% of the enterprises used it as their ‘minor source’ of long term finance and 66.89% of the enterprises have not used ‘friends’ as their source of long term finance.

It also exhibits that 15.17% of the total Manufacturing and Service enterprises have used ‘family members and relatives’ as their ‘major source’ of long term finance, 42.07% of the enterprises used it as their ‘minor source’ of long term finance while 42.76% of the enterprises have not used ‘family members and relatives’ as their source of long term finance.

The above table displays that 16.55% of the total Manufacturing and Service enterprises have used ‘professional money lenders’ as their ‘major source’ of long term finance, 15.17% of the enterprises used it as their ‘minor source’ of long term finance but 68.28% of the enterprises have not used ‘professional money lenders’ as their source of long term finance.

Moreover, 1.38% of the total Manufacturing and Service enterprises have used ‘government grant and subsidy’ as their ‘major source’ of long term finance, 17.93% of the enterprises used it as their ‘minor source’ of long term finance while 80.69% of the enterprises have not used ‘government grant and subsidy’ as their source of long term finance.

## **Conclusion**

The Manufacturing and Service enterprises in Hailakandi District have used long term sources to meet the financial requirements of the enterprises. Most of the total Manufacturing and Service enterprises in Hailakandi District have used ‘own capital’ as their ‘major source’ of long term finance. Least of the enterprises have used ‘government grant and subsidy’ as their ‘major source’ of long term finance. Most of the total Manufacturing and Service enterprises in Hailakandi District have used ‘family members and relatives as their ‘minor source’ of long term finance. Least of the enterprises have used ‘non-banking financial institutions’ as their ‘minor source’ of long term finance. The study suggests that banks and non-banking financial institutions should provide more finance to the enterprises in the District. The government should also provide more incentives and subsidies to the Manufacturing and Service enterprises in Hailakandi District.

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