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Financial Institutions in Promoting Entrepreneurship in India

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ABSTRACT

Entrepreneurship is the most important and indispensable part of the social and economical growth of any country - developed, developing or underdeveloped. The development of entrepreneur has been recognized widely as the key to economic growth, development and human welfare. In India, the movements of entrepreneurship promotion and development in the past few decades have gone a long way particularly in the developing countries. Governments, various industrial promotion and support institutions are making considerable efforts to facilitate the process of development of new entrepreneurs for setting up enterprises. Peter Drucker, father of modern management, said that, in all the countries in the world, the entrepreneurs are between 12% to 15%. This is very low percentage. It is absolutely necessary to increase this ratio for economic growth. This paper presents the role of financial institutions in India in developing the entrepreneurship.

KEYWORDS: Entrepreneurship, Small Industries, Financial Institution, India.

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INTRODUCTION

The movements of entrepreneurship promotion and development in the past few years have gone a long way particularly in the developing countries¹. Governments, various industrial promotion and support institutions are making considerable efforts to facilitate the process of development of new entrepreneurs for setting up enterprises. These promotional activities involved making attractive schemes for availability of fund and various other assistances including technical know how, training, sales, purchases, etc. It is believed that these efforts have made a favorable impact on the growth of these enterprises in the State as well as in the region. Entrepreneurship gives a fillip to new organizational forms and the economy has to adjust to these demands. There is a direct correlation between the level of economic development and the level of entrepreneurship.

Mr. V. V. Bhatt, member of Economic Institute of World Bank, Washington has rightly mentioned that looking historically, to start and maintain the change in the social and economical growth process, the contribution of entrepreneur has been recognized as godfather. Manicavel, 1996² examined 849 listed problems over the life cycle i.e. marketing, managerial and a financial on a sample of 364 SSI units from Viruthunagar district of Tamil Nadu. Thorsten Beck & Asli Demirguc-Kunt ,2006³ indicated significant dominance by marketing and financial problems in the formation stage and relative prevalence of managerial problems throughout the life cycle. Reddy, 2003⁴ evaluated the entrepreneurial process and identified problems of poverty, low capital base, insufficient base-security needed for securing financial assistance from development agencies, complex administrative procedures, lack of awareness about government schemes, non-Cooperation by officers, low repayment of borrowed in three regions of Andhra Pradesh.

The financial institutions like Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), Industrial Finance Corporation of India (IFCI), National Small Industries Corporation Ltd (NSIC), State Small Industries Corporation (SSIC), Regional Rural Banks (RRBs), State Financial Corporations (SFCs), State Industrial Development Corporations (SIDCs), Cooperative Banks and Gramin Banks and various commercial banks in particular. The institutions like Small Industries Development Organization (SIDO), District Industries Centres (DICs), Small Industries Service Institutes (SISIs), State Small Industries Development Corporations (SSIDCs), and Industrial Development Corporation (IDC) are there for providing technical guidance to entrepreneurs. Micro Units Development & Refinance Agency Limited (MUDRA) was incorporated under the companies Act, 2013 and launched on

April 08, 2015 by the Honorable Prime Minister as a wholly owned subsidiary company of SIDBI, with NBFI registration from RBI. MUDRA aims to increase the confidence of the aspiring but unemployed youth of the country to become first generation entrepreneur as also of existing small businesses to expand their activities.

The present paper in this regard is an attempt to examine the role of financial institutions in promoting small scale and tiny industries in terms of growth of entrepreneurs, enterprises and its contribution to State Domestic Products.

ROLE OF INDUSTRIAL DEVELOPMENT BANK OF INDIA

Industrial Development Bank of India (IDBI) established under Industrial Development Bank of India Act, 1964, is the principal financial institution for providing credit and other facilities for developing industries and assisting development institutions⁵. Till 1976, IDBI was a subsidiary bank of RBI. In 1976 it was separated from RBI and the ownership was transferred to Government of India⁶, IDBI is the tenth largest bank in the world in terms of development. The National Stock Exchange (NSE), the National Securities Depository Services Ltd. (NSDL), Stock Holding Corporation of India (SHCIL) are some of the Institutions which has been built by IDBI.

The main functions of IDBI are discussed below:

- To provide financial assistance to industrial enterprises.
- To promote institutions engaged in industrial development.
- To provide technical and administrative assistance for promotion management or expansion of industry.
- To undertake market and investment research and surveys in connection with development of industry.

ROLE OF SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

SIDBI was established in April 1990 under an Act of Parliament as a wholly-owned subsidiary of Industrial Development Bank of India and as the principal financial institution for the following three-fold activities:

- Financing the small scale sector by providing:
 - i. Indirect assistance to primary lending institutions (PLIs)
 - ii. Direct assistance to small scale units and
- Promoting small industries through development and support services;
- Coordinating the functions of other institutions engaged in similar activities.

The main objective of SIDBI has been to provide short term credit/working capital to small enterprises for its day to day requirement for purchasing raw material and other inputs like

electricity, water, etc. and for payment of wages and salaries; and long term credit for creation of fixed assets like land, building, plant and machinery⁷.

SIDBI and Micro Credit

SIDBI launched a major project, "SIDBI Foundation for Micro Credit" (SFMC) in January 1999 as a proactive step to facilitate accelerated and orderly growth of the micro finance sector in India⁸. It is envisaged to emerge as the apex wholesaler for micro finance in India providing a complete range of financial and non-financial services such as loan funds, grant support, equity and institution building support to the retailing Micro Finance Institutions (MFIs) so as to facilitate their development into financially sustainable entities, besides developing a network of service providers for the sector. While it is striving to accelerate the credit flow to the Micro finance sector it is working in close partnership with the Micro Finance Institutions in the country. SFMC is also poised to play a significant role in advocating appropriate policies and regulations and to act as a platform for exchange of information across the sector

ROLE OF INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI)

IFCI Ltd. was set up in 1948 as Industrial Finance Corporation of India, a Statutory Corporation, through `The Industrial Finance Corporation of India Act, 1948 of Parliament to provide medium and long term finance to industry. After repeal of this Act in 1993, IFCI became a Public Limited Company registered under the Companies Act, 1956. IFCI became a Government controlled company subsequent to enhancement of equity shareholding to 55.53% by Government of India on December 21, 2012. In April, 2015, Government of India has acquired six crore Preference Shares of IFCI Ltd. of Rs.10/- each from six public sector banks. With this, the shareholding of the Government of India in paid-up share capital of IFCI has been increased to 51.04% and IFCI has become a Government Company under Section 2(45) of the Companies Act, 2013.

IFCI is also a Systemically Important Non-Deposit taking Non-Banking Finance Company (NBFC-ND-SI), registered with the Reserve Bank of India. It provides financial assistance to the entrepreneurs through rupee and foreign currency loans, underwriting, direct subscriptions to shares, debentures and guarantees. It also provides finance related to equipment⁹. Schemes that are IFCI provides to entrepreneurs are Consultancy fees subsidy schemes, interest subsidy schemes for women entrepreneurs.

ROLE OF REGIONAL RURAL BANKS (RRBS)

Regional Rural Banks (RRBs) are constituted to meet the financial and banking needs of weaker sections of the rural areas with a special attention on small and marginal farmers,

agricultural laborers, artisans, landless farmers, small traders, tint enterprises etc.¹⁰ Hence, RRBs were established in India in 1975 essentially for the purpose of taking banking service to the doorsteps of rural people, particularly in places where banking facilities are not available. The primary objective of this study is to analyze the performance in terms of loans provided to the priority and non-priority sectors of the country and especially various types of loans such as crop loans, term loans, loans to rural artisans, retail trade, small scale industries and self-help groups etc.¹¹

The first five Regional Rural Banks are as follows;

- Prathama Bank and Gorakhpur kshetriya Gramin Bank in Uttar Pradesh,
- Haryana Krishi Gramin Bank in Haryana,
- Gour Gramin Bank in West Bengal,
- Jaipur-Nagpur Anchalik Gramin Bank, Rajasthan.

According to Syed Ibrahim, 2010¹², policies of current phase of financial liberalization have had an immediate, direct and dramatic effect on rural credit. There has been a contraction in rural banking in general and in priority sector ending and preferential lending to the poor in particular¹³.

ROLE OF SMALL INDUSTRIES DEVELOPMENT ORGANIZATION (SIDO)

Small Industries Development Organization (SIDO) is a subordinate office of the Department of SSI & Auxiliary and Rural Industry (ARI). It is an apex body and nodal agency for formulating, coordinating and monitoring the policies and programs for promotion and development of small-scale industries. Functions Relating to Co-ordination are to evolve a national policy for the development of small-scale industries, and to co-ordinate the policies and programs of various State Governments.

Functions Relating to Industrial Development are to reserve items for production by small-scale industries, and to collect data on consumer items imported and then, encourage the setting of industrial units to produce these items by giving coordinated assistance, and to encourage small-scale industries to actively participate in Government Stores Purchase Program by giving them necessary guidance, market advice, and assistance. Functions Relating to Extension are to make provision to technical services for improving technical process, production planning, selecting appropriate machinery, and preparing factory lay-out and design and to provide consultancy and training services to strengthen the competitive ability of small-scale industries.

ROLE OF SMALL INDUSTRIES SERVICE INSTITUTES (SISIS)

At the heart of all agencies dealing with development of small industry is small industries development organization, SIDO. It was originally know as central small industries organization

(CSIO). Attached to the ministry, SIDO administers small industries service institute (SISI's). The small industries service institutes (SISI's) are set-up one in each state to provide consultancy and training to small and prospective entrepreneurs. The activities of SISs are co-ordinate by the industrial management training division of the DC, SSI office (New Delhi) (Narasimhan Committee, 1991)¹⁴. In all there are 28 SISI's and 30 Branch SISI's set up in state capitals and other places all over the country.

SISI renders the following services to enterprises

- Assist existing and prospective entrepreneurs through technical and managerial counseling such as help in selecting the appropriate machinery and equipment, adoption of recognized standards of testing, quality performance etc;
- Conducting EDPs all over the country;
- Advise the Central and State governments on policy matters relating to small industry development;
- Assist in testing of raw materials and products of SSIs, their inspection and quality control;

ROLE OF DISTRICT INDUSTRIES CENTRES (DICS)

The 'District Industries Centre' (DICs) program was started by the central government in 1978 with the objective of providing a focal point for promoting small, tiny, cottage and village industries in a particular area and to make available to them all necessary services and facilities at one place. The finances for setting up DICs in a state are contributed equally by the particular state government and the central government.

DICs is to facilitate the process of small enterprise development, DICs have been entrusted with most of the administrative and financial powers and for purpose of allotment of land, work sheds, raw materials etc.¹⁵ DICs functions under the 'Directorate of Industries'.

The important objectives of DICs are as

- i. To accelerate the overall efforts for industrialization of the district.
- ii. Rural industrialization and development of rural industries and handicrafts.
- iii. Attainment of economic equality in various regions of the district.
- iv. Providing the benefit of the government schemes to the new entrepreneurs.
- v. Centralization of procedures required to start a new industrial unit and minimization- of the efforts and time required to obtain various permissions, licenses, registrations, subsidies etc.

ROLE OF MUDRA

Pradhan Mantri Mudra Yojana (PMMY), a scheme to finance income generating small business enterprises was also launched on 08 April 2015, along with the launch of MUDRA, wherein all banks are required to finance micro entrepreneurs engaged in microenterprises of income generating activities with loan requirement up to Rs.10 lakh, irrespective of whether they avail of refinance support from MUDRA. As a measure to mitigate the problem of collateral security faced by the new entrepreneurs, GOI has notified the constitution of Credit Guarantee Fund for Micro Units (CGFMU) on 18 April, 2016 with Rs.3000 crore which is operational through NCGTC.

CONCLUSION

Through entrepreneurship one can contribute in the solving the problem of unemployment in the country, since Entrepreneurs generate employment opportunities directly and indirectly. Directly means self-employment which is the best way for independent and honorable business or industrial life. Indirectly means by setting up business units which offer jobs to thousands of people. Entrepreneurship balances the regional development. Government and financial institution encourages the entrepreneurs to establish their business undertakings in backward, rural, hilly and mountain areas. In general it can be said that the gap between the demand for and supply of industrial finance is sought to be filled through term loans by development of financial institution. Over a period of time, there has been a steady growth in the number of industrial units assisted, and in the amount of loan sanctioned and distributed by financial institutions. It could be concluded that the financial institution is the backbone in growth of an industry, whether it is agricultural, textile or any other kind of industry different financial institution have different kind of role and different purpose of existence and have number of different way that help the industries in their growth and prospects.

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