

Role of Financial Institution and Commercial Banks in Entrepreneurship Development in India

Dr. Raj Kumar Agrawal

(Assistant Professor, TH. H.N. Singh College, Allahabad State University, Karelalbagh Allahabad, UP, India)

Abstract: *Entrepreneurs shape the financial fate of nations by creating wealth and service, offering products and services, and generating taxes for governments. That is why entrepreneurship has closely been linked to the financial growth of the country. Entrepreneurs convert ideas into financial opportunities through innovations, which are considered to be a major source of competitiveness in an increasingly universalizing world economy. India has been growing at a relatively high rate in the last few years, and is likely to be the largest economy in the world by 2050. India is second among all nations in total entrepreneurship activity as per the Universal Entrepreneurship Monitor Report 2002. The liberalization of the nation since 1991 has paved the way for a huge number of people to become entrepreneurs. Developing countries like India are striving to be outward looking universal economies rather than inner looking local economies. This will be possible only if the banks and financial institutions encouraged to the new entrepreneurs. Entrepreneurship can be refined among the present youth and it can be developed systematically with the help of Banks and financial institutions.*

Keywords: *Entrepreneurs, Universal Economies, Banks*

I. INTRODUCTION

Entrepreneurs shape financial destiny of nations by creating wealth and employment, offering products and services, and generating taxes for governments. That is why entrepreneurship has closely been linked to the financial growth of the country. Entrepreneurs convert ideas into financial opportunities through innovations, which are careful to be the main source of competitiveness in an ever more universalizing world economy. India has been rising at a comparatively high rate in the last few years, and is likely to be the main financial system in the world by 2050. India is second amid all nations in total entrepreneurship action as per the Universal Entrepreneurship Monitor Report 2002. The liberalization of the economy since 1991 has cemented the way for a huge figure of people to become entrepreneurs. Developing countries like India are striving to be outward looking universal economies rather than inward looking local economies. This will be possible only if the banks and financial institutions encouraged to the new entrepreneurs. Entrepreneurship can be cultivated among the present youth and it can be developed systematically with the help of Banks and financial institutions.

The movement of entrepreneurship, growth in the past few decades has gone a long way in India. Both government and various manufacturing endorsement and support institutions are making considerable efforts to facilitate the process of emergence of new entrepreneurs for setting up enterprises in small scale sector. These efforts concerned making good-looking schemes for availability of finance and various other assistances including technical knowhow, training, etc. It is believed that these labors have made a favorable collision on the growth of these enterprises in the State. There are nowadays a large number of financial institutions like Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), and various commercial banks provides financing needs of entrepreneurs. The present paper in this regard is an attempt to examine the financial problems of entrepreneurs and role of financial institutions in promoting entrepreneurship in India.

Indian Financial Problems

India is an entrepreneurial country, but its entrepreneurs have had to struggle to create and grow their commerce ventures. Obtaining financing for a business can be very difficult, especially when first starting out. Banks are reluctant to lend money to new businesses, and potential investors may steer clear of budding entrepreneurs with little or no prior business experience. Most of the entrepreneurs fail to get outside funds due to absence of tangible security and credit in the market. The procedure to avail the loan facility is time consuming that its delay often disappoints the entrepreneurs. Lack of money available to entrepreneurs is one of the biggest problems which entrepreneur is bearing now days especially due to universal recession.

Main difficulties faced by entrepreneurs include lack of finance to start business, reduced profits due to rivalry, pricing of goods and services, Financial statements are difficult to be maintained by entrepreneur, stringent tax laws, lack of guarantee for the raise up of loans, difficulty in raising capital through equity, dependence on small money lenders for loans for which they charge discriminating interest rates and huge rent and property cost. These all problems create a difficulty in raising money through loans. The administration is

providing subsidies to entrepreneurs, but due to the high cost of finance, these subsidies are not giving fruitful results.

The government has various institutions for this purpose, but the results are not up to the level expected. Industrial Finance Corporation of India (IFCI), Industrial development bank of India, Industrial Credit and Investment Corporation of India (ICICI), Small Scale Industry development bank of India (SIDBI) are some of the national level (SFC) institutions that are helping out Indian entrepreneurs. Some state level institutions are also working like a State Financial Corporation and State Industrial Development Corporation (SIDC). These institutions are providing assistance for setting up of new ventures and side by side for modernization and expansion of existing ones but their terms and circumstances are very severe to be handled. Various schemes like composite loan scheme, tiny unit scheme, scheme for technical entrepreneurs etc. had in progress but they are unable to meet the hope of entrepreneur. Raising funds through equity is little bit difficult for entrepreneurs because of lack of financial knowledge and also their monetary corpus is also low, so loans are the main source of finance for them which proved to be a most obstacle in developing entrepreneurship.

Financial Institutions in India

Finance is one of the essential supplies of an enterprise. Without sufficient funds, no business can be developed. In India, Central and state governments are promoting a number of financial institutions to bring in the industrial development in the state. A number of hold up institutions set up by central and state government help the entrepreneurial activities in various ways. The activities cover a wide range of services i.e. financing, technological guidance, equipment support, training, marketing and providing subsidy and grants.

Financial institutions perform a wide variety of promotional behavior for new entrepreneurs, consultancy services for small and medium enterprises and programmes designed for accredited voluntary agencies for the financial upliftment of the needy. These include entrepreneurship development and self-employment. The main function of financial institutions is to provide mainly the term loan assistance to small and medium scale industries for acquiring fixed assets like land, building, place and machinery. Loans are also extended for expansion, diversification, technology development, expansion of the business. The following institutions are available for providing the above mentioned benefits.

1. Industrial development bank of India (IDBI)
2. National bank for agriculture and rural development (NABARD)
3. Export import bank of India
4. Small industrial development bank of India (SIDBI)
5. Industrial investment bank of India
6. Industrial finance corporation of India (IFCI)
7. Industrial Credit and Investment Corporation of India (ICICI)
8. Industrial Reconstruction Bank of India
9. Indian banking system and commercial banks
10. State Financial Corporations
11. Life Insurance corporation of India (LIC)
12. Unit Trust of India (UTI)

The Role of Financial Institutions in Entrepreneurial ship in India

The Maharashtra State Financial Corporation (MSFC) has been set up under the 'State Financial Corporation's (SFCs) Act 1951'. The Corporation has been operating in the State of Maharashtra since 1962 and in the State of Goa and the Union Territory of Daman and Diu since 1964. The main function of MSFC is to provide Term Loan assistance to small and medium scale industries (new as well as existing) for acquisition of fixed assets like land, building, plant & machinery. The Eligible Industries / Activities are - Manufacturing, Assembling, Servicing, Processing, Preservation, Transportation, Setting - up Industrial Estates, Road Construction etc. Small Nursing Homes, Hotels, Restaurants, Tourism Related Activities, Medical Practitioners, Qualified Professionals. Major Schemes run by the MSFC is - General Loan, Equipment Finance, Small Nursing Homes, Electro - Medical Equipment for Medical Practitioners, Hotels, Restaurants & Tourism Related Activities, Qualified Professionals, Mahila Udyam Nidhi, National Equity Fund, Technology Development & Modernization, etc.

Commercial banks came into the business of supporting entrepreneurs in a significant way only after the nationalization of banks. Till that time these banks were financing to entrepreneurs. Indian Commercial Banks have established an Entrepreneurship service call to provide consultancy services to prospective entrepreneurs. In addition; these banks also assist new entrepreneurs in selection of enterprise, preparation and evaluation of project report, market survey, training at different levels, obtaining government clearance, procurement of machinery and equipments and marketing of products of the enterprises RBI advised commercial banks to initiate the activities of increase credit flow to the small scale industries. A bank can extend credit to an entrepreneur, which allows him or her to be able to start with more purchasing power than with cash alone.

State Bank of India launched entrepreneurship development programme. State Bank of India implemented a scheme of financial assistance to technically qualified or trained entrepreneurs. SBI has set up Research and Development Fund for entrepreneurship development. SBI introduced deferred payment guarantee scheme for the purchase of big machines. SBI through its scheme made available fund and non-fund based facilities. SBI provides working capital to entrepreneurs. This programme was of one month duration, having three phases.

- Initiation phase: creating awareness about entrepreneurial opportunities.
- Development phase: Training in developing motivation and managerial skills
- Support phase: Counseling, encouragement and infrastructural support for establishing and running enterprises.

Entrepreneurship - Solutions for Financial Growth

India needs to create 10-15 million jobs per year for the next decade to provide gainful employment to its young population. Accelerating entrepreneurship and business creation is crucial for such large-scale employment generation. Moreover, entrepreneurship tends to be innovation-driven and will also help generate solutions to India's myriad social problems including high-quality education, affordable health care, clean energy and waste management, and financial inclusion. Entrepreneurship-led financial growth is also more inclusive and typically does not involve exploitation of natural resources. Access to finance represents one of the most significant challenges for entrepreneurs and for the creation, survival and growth of small businesses. For the development of entrepreneurship in India more financial institutions apart from the government should come up with low interest rate, flexible loan schemes, and better support. There is the financial institution that helps the new ideology, but the numbers are less. The blue chip financial institution should encourage the youth for starting up their business and provide them with a very good amount of loan at low interest rate.

II. CONCLUSIONS

Entrepreneurs shape financial destiny of nations by creating wealth and employment. India has been growing at a relatively high rate in the last few years, and is likely to be the largest economy in the world by 2050. Major difficulties faced by entrepreneurs include lack of finance to start a business. Entrepreneurship can be cultivated among the present youth and it can be developed systematically with the help of Banks and financial institutions. There is today a large number of financial institutions like Industrial Development Bank of India, Small Industries Development Bank of India, and various commercial banks provides financing needs of entrepreneurs. A financial institution performs a wide variety of promotional activities for new entrepreneurs. Access to finance represents one of the most significant challenges for entrepreneurs and for the creation, survival and growth of small businesses. Indian Commercial Banks have established an Entrepreneurship service call to provide consultancy services to prospective entrepreneurs. In addition; commercial banks also assist new entrepreneurs in selection of venture, preparation and evaluation of project report, market survey, and training at different levels, obtaining government clearance, procurement of machinery and equipments and marketing of products of the enterprises. State Bank of India implemented a scheme of financial assistance to technically qualified or trained entrepreneurs. For the development of entrepreneurship in India more financial institutions apart from the government should come up with low interest rate, flexible loan schemes, and better support.

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