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Role of Financial Institutions in Promoting Entrepreneurship: A Study of Selected Financial Institutions

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Abstract

Entrepreneurship plays a vital role for the economic growth and development of a country. It is the pillar upon which superstructure of Indian economy is based. The Prime Minister of India has introduced Make In India scheme to boost entrepreneurship. However, most of our entrepreneurs are still struggling to survive. They are facing many problems. Availability of adequate and timely fund is a big problem for them. In this context, the present study is an attempt made by the researcher to make a study on the role of financial institutions in developing entrepreneurship in India. This paper also attempts to find out the main problems of entrepreneurs with respect to finance. This study includes both primary and secondary data. Primary data has been collected from the respondents by using questionnaires while secondary data has been collected from various published sources. Statistical tools like chi-square test have been used to examine the significant relationship between the role of financial institutions and the development of entrepreneurship in India. The finding of the study reveals that positive and significant relationship exists between financial institutions in providing loans to promote entrepreneurship development. It is concluded that financial institutions play a very significant role for the performance and survival of entrepreneurs. The study however, recommends that financial institutions should keep a constant vigil over the enterprises being financed by them. They must ensure that funds are being properly utilized in business. This can be possible if a proper monitoring system on credit administration and utilization is established in these financial institutions.

Keywords: Entrepreneurship, Financial Assistance, Financial Institutions, Entrepreneurship Development.

Introduction

It is worthy to note that the contribution of financial institutions to entrepreneurship activities is increasingly being recognized as a primary engine of economic growth. By combining existing resources with innovative ideas, entrepreneurs add value through the commercialization of new products, the creation of new jobs and the building of new firms. The Global Entrepreneurship Monitor (GEM) indicates that nations with higher levels of entrepreneurial activity enjoy strong economic growth. In short, entrepreneurs are the link between new ideas and economic development.Economic growth and development requires vibrant and visionary participation of entrepreneurial community. It is seen as a key to economic development in many countries across the globe. Entrepreneurship promotes innovation, engenders competition, creates employment and thus contributes to economic wealth and spending power. Entrepreneurship is considered as the engine of economic growth and can be used as an effective tool for employment creation, poverty eradication, balanced regional development and inclusive socio-economic development. MSMEs, by encouraging growth of local entrepreneurship with limited resources, can be used for rapid industrialisation across rural and urban areas. Successive governments have been implementing several programmes for the development of MSMEs in the country. In order to bring balanced regional development, though these programmes are expected to be implemented throughout the State uniformly, an empirical study shows that there is regional disparity in this regard and consequently those regions remain entrepreneurially backward.

Entrepreneurship shape financial destiny of nation by creating wealth and employment by offering products and services and generating taxes for government. This is the reason why entrepreneurship has closely been linked to the financial growth of the country. But in India entrepreneurs are struggling because of lack of scope, finance, and support from government. Most of the entrepreneur fails to get outside fund due to absence of tangible securities or credit in markets. In India financial institutions plays a very pivotal role for upliftment of entrepreneurship. Developing country like India is striving to outward looking universal economies rather than inner looking local economies. This will be possible only if the financial institutions encourage entrepreneurship.

Significance of the Study

This study will add to knowledge on how Indian policy makers can grow the economy through their support on entrepreneurship development which has been identified as the driver for economic growth. Banks and other financial institutions will benefits from the study because it will provide a veritable base for the effective functioning of financial institution to the development of entrepreneurial activities. More so, students of institution of higher learning especially those in commerce and management will benefit from this study because it will serve as an eye opener to the role of financial institutions in financing entrepreneurs.

Statement of the Problem

The role of finance is very important in the development of entrepreneurship and Micro, Small and Medium Scale Enterprises (MSMEs). It is regarded as the life blood of a business. The relationship between a financial institution and an entrepreneur is not a one-time affair, but a relatively permanent and enduring one, which requires to be nurtured with good quality of service. Recently Narendra Modi government has made a call for make in India and encourages young Indian talents to start their own new business or undertake ventures. After that many new entrepreneurs came forward to start business. At the same time the role of financial institution increased as they should meet the need of financial assistance to new start-up company. Entrepreneurship development is a concept that has to do with the formation, financing, growth and expansion of business or enterprises in an economy. Government of India have adopted monetary, fiscal, industrial and developmental policy measures at the macro level to facilitate and support entrepreneurial activities and at the same time specific financing arrangements are being made in respect of funding programmes at the micro level to boost entrepreneurship activities. However, Indian entrepreneurs still face challenges in getting enough support and adequate funding from financial institutions. Against this backdrop, this study therefore, aims at making close evaluation on the role of financial institutions in the development of entrepreneurship in India.

Review of Literature

Many research works have been done in different areas of entrepreneurship and financial institutions in India .A good number of literatures are available on the various aspects of entrepreneurship in India. A few of these reviews are as follows.

Sushmitha. R. Shetty, Swathi Bhat and Abhinandan (2018) focussed on the role of banks in the development of entrepreneurship. It is aimed at to find out what are the problems encountered by entrepreneurs in acquiring loans for their business and also what are the problems are faced by banks in granting loans along with their contribution of entrepreneurship in India. This paper also made an attempt to know the present scenario of entrepreneurship in India. The study is purely based on secondary data which is collected through magazines, journals and various other sources of secondary data.

M.H.J.Chamani, K.M.M.C.B.Kulathunga and T.G.A.H.C.Amarawansha (2017) focused to find the factors which affect on women entrepreneurs' access to finance. Then, the study conducted through firms which have been registered under Colombo, Gampaha and kaluthara district's Chamber of Commerce and Industry. A structured questionnaire was designed and administered to collect the data. The results from the study reveal that women entrepreneurs' access to finance is highly affected by the firm characteristics, and policies and procedures. Therefore, formal finance institutes, should more close to women entrepreneurs' firms, should reduce their processes and pre requirements when issuing credit and the repayment procedures should also be easy to women entrepreneurs' firms.

Muogbo Uju Sussan, Tomola Obamuyi (2018) examined the impact of microfinance bank on entrepreneurship development in Anambra State. To achieve the stated objective of the study, three research questions were formulated. The descriptive research design was adopted for the study. The population of the study was 734 staff of ten (10) selected entrepreneurial firms in Anambra State. It was impracticable to study the whole population therefore 259 staff was sampled using stratified sampling technique. Out of the 259 copies of the structured questionnaire administered to the respondents, 192 were completed and returned. The data obtained were analyzed using Pearson correlation for hypothesis one and ANOVA for hypotheses 2, and 3 respectively. The findings revealed that microfinance bank impact significantly on the development of entrepreneurship in Nigeria; that there are problems that militate against the effective financing of entrepreneurial businesses in Anambra State. Based on the findings, it was recommended that microfinance bank in Anambra State should be strengthened to embrace entrepreneurship devoid of imitation and vocational inclinations. Also adequate financial, physical and human resources should be provided by various stakeholders not only for potential but also for existing, start-ups and aspiring SMEs.

Oshiobugie O. Bruno and Okoh Lucky (2015) investigated the impact of banks and other financial institutions in enhancing the growth of entrepreneurial development: An empirical study of South-South, Nigeria. A set of structured questionnaire was used as the instrument for data collection and administered on 335 entrepreneurs in the South-South, Nigeria randomly selected using YaroYemane formula. Applying this formula, the sample size from a population of 2056 is 335 respondents at 95% confidence level. Three hundred and thirty five copies of questionnaire were distributed to the respondents and 288 copies were recovered giving a recovery rate of 85.9%. Data analysis was made and the hypotheses formulated were tested using Kruskal Wallis-oneway analysis of variance by rank. For the first hypothesis and the second hypothesis was tested using independent t-test statistics. The findings revealed that positive and significant relationship exists between banks and other financial institutions in providing loans to promote entrepreneurship development in South-South, Nigeria. Another finding revealed that positive and significant relationship exists between banks and other financial institutions in providing advisory services to promote entrepreneurship development in South-South, Nigeria. It was concluded that banks and other financial institutions play a very significant role for the performance and survival of entrepreneurs in South-South Nigeria. The study however, recommended that banks should keep a constant vigil over the enterprises being financed by them. The banks must ensure that funds are being properly utilized in business. This can be possible if a proper monitoring system on credit administration and utilization is established in the banks.

Kuzilwa Joseph Andrew (2018) viewed that lack of access to credit has been identified as one of the major constraints hindering the development of small business and the supply of entrepreneurial activities not only in Tanzania but also in other developing countries. Commercial banks have traditionally concentrated their lending on large formal enterprises which possess collateral and therefore, are deemed to be less risk form.

Sindhu Vijayakumar (2017) had noted that commercial banks sanction loans to industries but their focus is generally on large — scale units. They hesitate to provide large funds to small — scale units because of two reasons. First, small — scale units generally need small amount of finance. Second credit worthiness of small — scale entrepreneurs is doubtful. So small scale entrepreneurs especially women entrepreneurs, largely depend on financial institutions other than commercial banks.

Objectives of the Study

The main objectives of this study are as follows:

1. To study the role of financial institutions in developing entrepreneurship.
2. To analyse the trend of institutional finance to entrepreneurs.
3. To examine the problems faced by entrepreneurs while accessing finance.

Hypothesis

The present study has the following hypothesis.

H_0

There is no significant relationship between financial assistance and development of entrepreneurship in India.

H_1

There is significant relationship between financial assistance and development of entrepreneurship in India.

Research Methodology

Source of Data

The data has been collected from both primary as well as secondary sources. Primary data has been collected through well-structured questionnaire. The secondary data has been collected from various published sources like journals, magazines, websites, books, etc.

Sample Design

Sampling Techniques

The samples have been selected from the population through convenience sampling method.

Sample Size

The sample size consists of 200 entrepreneurs of large, medium, small and cottage industry of Odisha and some of the states of India.

Statistical Tools

The analysis of data has been carried out by using trend analysis and testing of hypothesis has been done by using chi-square test.

Role of Financial Institutions in Developing Entrepreneurship

At the time of growing economy of India and weak global trade and investment, entrepreneurs have emerged as a driving force for more inclusive and prosperous society. But still the tribe of entrepreneurs in India are struggling because of less finance. Looking at this deficiency, Government of India has introduced various schemes as well as different institutions and has been instruct the banks to provide adequate finance for pampering entrepreneurship in our country.

The financial sector comprises of scheduled commercial banks, developmental banks and other commercial banks that plays a very significant role in providing finance,counselling service and technical service to the entrepreneurs for the growth and development of different sectors of the economy. This institutions provide both the working capital and term loan to the industrial sectors. The institutional structure for credit relaxation has developed over the years since independence. This financial institutions provide different type of financial assistance to small, medium and large sector industries. These institutions were important to ensure the pace and pattern of industrial development by offering finance at concessional term to various sector thereby promote industrial culture which leads to economic development.

The major financial institutions are as follows:

1. All India Development Banks (AIDBs)
2. Specialised Financial Institutions (SFIs)
3. Investment Institutions
4. State Level Institutions

All India Development Banks (AIDBs)

It includes Industrial Development Bank of India (IDBI), Finance Corporation of India Ltd (IFCI Ltd), Small Industries Development Bank of India [SIDBI] and Industrial Investment Bank of India Ltd (IIBI) who provides credit to large, medium and small scale industries.

IDBI was established in 1964 to provide assistance to the small scale sector through its scheme of refinance and bills rediscounting, project finance, technological upgradation, venture capital fund, etc. It also has a Voluntary Executive Corporation Cell (VECC) to use the service of experts for consultancy purposes.

IFCI was established in 1948 by the Government of India to pioneer long-term institutional credit to medium and large scale industries. 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 equipment. It provides consultancy fees, subsidy schemes, interest subsidy schemes for women entrepreneurs.

SIDBI was set up in 1990 as a subsidiary of IDBI to promote and develop small scale industries by providing finance and seed capital or soft loan assistance under NEF scheme. It provides factoring, leasing services and financial assistance to the institutes, organisations for undertaking EDPs to empower the MSME sector by contributing to the process of economic growth and employee generation.

IIBI was established in 1985 who act as a principled credit and reconstruction agency for sick industrial units. It assists industries by providing short duration non-project asset-backed financing in the form of underwriting/direct subscription working capital to small companies.

Specialised Financial Institutes

They have been set up to serve the increasing financial needs of commerce and trade in the area of venture capital, credit rating and leasing, etc. It includes ICFI Venture Capital Funds Ltd (IVCF), Industrial Credit and Investment Corporation of India Ltd (ICICI) and Tourism Finance Corporation of India Ltd. [TFCI].

IVCF is a subsidiary of IFCI Ltd which was formed with the objective of broadening entrepreneurial base in the country by facilitating funding to ventures involving innovative product/process/technology. It promotes Risk Capital Scheme; Technology Finance and Development Scheme.

ICICI was established in 1956 to assist small and medium scale sectors by sanctioning project finance for new technology ventures and providing financial assistance through rupee and foreign currency loans, underwriting and direct subscriptions to shares, debentures and guarantees.

TFCI was set up Government of India for promotion and growth of tourist industry in the country.

Investment Institutions

These are the most popular form of financial intermediaries which includes LIC, UTI and GIC for catering the needs of small savers and investors. They deploy their assets largely in marketable securities.

LIC was established in 1956 and targets the rural areas by spreading the life insurance. It gives loans for activities like housing, rural electrification, water supply, diversification of industrial ventures etc.

UTI was established in 1964 under which objectives are to mobilise savings of small investors through sale of units and channelizing these savings towards corporate investments. Primary Equity Fund; Unit Scheme 1995; Grihlaxmi Unit Plan ; Columbus India Fund were the schemes introduced by UTI.

GIC was to superintend, control and carry on the business of general insurance or non-life insurance.

State Level Institutions

They act as catalyst for promotion of investment and industrial development in the respective States. They broadly consist of 'State financial corporations' and 'State industrial development corporations.

SFCs were formed to provide financial assistance in the form of term loans, direct subscription to equity, debentures and guarantees for the development of small and medium enterprises. Their objective is catalysing higher investments and generating greater employment.

SIDCs was established with the objective of promoting industrial development and providing financial assistance to entrepreneurs by setting up medium and large industrial collaborations with entrepreneurs.

From the above information, it is clear that these institutions have a great role for development of entrepreneurship. The financial institution aimed at promoting and encouraging new enterprises. For doing so, it was expected to adopt a rational approach instead of continuing the traditional and conservative role to advance loan. These banks however failed in their new role due to legal limitations and bindings, lack of proper financial structure, excessive political interference, lack of competent and technical staff, etc.

Table No.1

Relationship between Financial Assistance and Development of Entrepreneurship

Types of Industry	Traditional source	Friends and relatives	Own Fund	Financial Institution	Column Total
Cottage and MSME	10	10	10	30	60
Medium Sectors	05	10	10	20	45
Large sectors	02	13	30	50	95
Row Total	17	33	50	100	200

Source: Calculated from Primary Data

Value of chi square =14.817, Degree of freedom (v) =(r-1) (c-1) =6

The calculated value of chi-square (14.817) is greater than tabulated value (12.59 at 5% level of significance). Hence, the null hypothesis is rejected .It is therefore concluded that there is significant relationship between the growth of entrepreneurship and financial assistance provided by banks.

Table No.2

Trend of Institutional Finance to Different Industries

Credit Outstanding To Industry (Billion)

Particulars	2014	2015	2016	2017	2018
Industry	25229(100)	26576(105.33)	27307(108.23)	26800(106.22)	26993(106.99)
Micro & Small	3517(100)	3800(108.04)	3715(105.62)	3697(105.11)	3730(106.05)
Medium	1274(100)	1265(100.70)	1148(90.10)	1048(82.26)	1037(81.39)
Large	20438(100)	21511(105.25)	22444(109.81)	22055(107.90)	22222(108,74)

(Source: www.rbi.org.in) 2014 is taken as base year

The above table shows credit disbursed by financial institutions to three sectors i.e Micro & Small industry, Medium sector industry and Large Industry for the last five years. The above data also shows that loan provided by financial institutions to different sectors are in increasing trend from 2014 to 2016 but from 2017 to 18 it represents decreasing trend. As we know finance is the life blood of business, due to shortage of finance no business can run properly. So a well-established enterprise needs own capital as well as borrowed capital. Therefore, there is a need of financial institutions to provide adequate financial assistance to different sectors. But the above table shows decreasing trend of loan which financial intuition provided to different industry. Overall, we have observed that there is a need of active role of financial institutions to accelerate entrepreneurship.

Problems Faced By Entrepreneurs While Accessing Finance

Entrepreneurs have long been recognised as the cornerstone of a country's development.It is thus important to understand to know what are the factors contributes to their success as well as the difficulties they face. Surveys have shown that the lack of available financing from financial institutions is one of the biggest problems facing by Entrepreneurs in this present time. In this paper researchers try to focus the problems of entrepreneurs in availing loan from different financial institutions.

Lack of Knowledge

Due to insufficient knowledge of entrepreneurs about the different schemes of government to get finance.

Lack of Proven Track Record

Banks give preferential treatment to businesses with lengthy and significant track records. Due to unavailability of required track record bank rejected loan application of different business house.

Improper Business Plan

This challenge can be a result of the business owner or manager falling to interpret his own Business plan or the bank official failing to do so the way owner does. To interpret the business plans that were drawn by consultations on their ability to negotiate for loans with banks.

Lack of Collateral Security

To hedge risk maximum commercial banks want collateral security against loan. Sometimes entrepreneur cannot have adequate asset that can be accepted by banks as collateral against loan.

Lack of Consistent Cash Flow

Bank tend to favour those entrepreneur who have a steady revenue stream and consistent cash flow coming every month. Entrepreneurs who have less cash flow are face difficulties to get finance.

Insufficient Credit

In this view of the recent recession banks increased their credit score standards. But many entrepreneurs have low credit scores.in most cases a business will need a credit score of at least 720 even to get foot in the door for a bank loan. So, some business entrepreneurs are lack of this credit score.

Economic Condition

Economic condition of a country also put a great impact to get finance from banks.Banks are always concerned with their own interest. They simply not lend money to a business if they feel that the current economic conditions areunfavourable for getting the money.

Interest Rate Discrimination

In general banks and other financial institutions tend to ask for personal guarantees from owners of small business and will set interest rates at higher levels theythose changed to big and establish company.

Personal Guarantees

Some time banks need personal guarantee from owner for their loan because of that some entrepreneurs denied to be personally liable for business.

Conclusion

Financial institutions are expected to provide entrepreneurs with adequate financial assistance as well as input to support and promote their enterprise. From the above study, it is concluded that the financial institutions have been found to be lacking on both counts and concepts of integrated approach to entrepreneurship development. Now-a-days, access to finance is one of the most important problems faced by entrepreneurs to create, survive and grow a new business. For the survival of business, apart from government support, the role of financial institutions is very vital. Therefore, it is suggested that financial institutions should play an active role by providing different assistance to entrepreneurs and they should focus their limelight especially on micro and small enterprises. Entrepreneurship play a vital role in the development of a country's economy as this is the key contributor to innovativeness, product improvement, reduction of unemployment and poverty. A country can move upward where its entrepreneurs are also moving upward.

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