

Analyzing Institutional Finance to Entrepreneurs in Tirupur City

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Abstract: The institutional finance plays an important role for the entrepreneurs to set a new business where our economic condition of our country will increase because of entrepreneurship. Entrepreneur is the key factor of entrepreneurship and now women in India are also successful in this as they have qualities desirable for entrepreneurship development. Entrepreneurship is a much suitable profession for women than regular employment. The result of the analysis indicated that analyzing the suitable financial institutions to the entrepreneurs in Tirupur city. Generally the entrepreneurs faces the problems like environmental/business problems, social/personal and financial problems too. Hence, an attempt has been made in the study to examine the financial institutions for the entrepreneurs and the motivating factors to start up their own business of garment industries in Tirupur city.

Key Words: entrepreneurs, financial, institutions

1. Introduction

The Government at both Central and State level established various financial Institutions to provide non-financial and financial assistances to small-scale industries. As the small-scale industries are weak financial structure, they require non-financial assistances, so that, they could compete with large scale industries. The government established various institutions to provide non-financial assistances exclusively to the small-scale industries. In the same way there are institutions in addition to commercial banks which cater to the financial requirements of small scale industries. In this chapter an attempt has been made to present the various institutions involved in providing financial and non-financial assistances to small-scale industries.

Institutional Finance with the launching of the Five Year Plans, in the absence of a sufficiently broad domestic capital market, there was need for adopting and enlarging the institutional structure to meet the medium and long-term credit requirements of the industrial sector. It was in this context that the RBI took the initiative in setting-up statutory corporations at the all-India and regional levels to function as specialized financial agencies purveying term credit.

2. Institutional Finance to Entrepreneur

A. Industrial Development Bank of India

The IDBI was established on July 1, 1964 by the Government of India under an Act of Parliament as the principal financial institution in the country.

1. The IDBI provides assistance to the small scale sector through its scheme of refinance and bills rediscounting scheme.
2. The financial assistance has been indirect in the form of refinancing of loans and the State Financial Corporations (SFCs).
3. In order to assist the small scale sector, the IDBI has set up Small Industries Development Fund (SIDF) in May 1986. This fund basically aims at providing a focal point to co-ordinate financial and non-financial inputs required for growth of small industries sector.
4. In association with Government of India, IDBI has constituted National Equity Fund (NEF) to prevail equity type of support to tiny and small scale units which are engaged in manufacturing activities. The scheme is administered by IDBI through nationalised banks.
5. The IDBI has also introduced the single window assistance scheme for grant of term loans and working capital assistance to tiny, small and medium scale enterprises.
6. The IDBI has also set up a Voluntary Executive Corporation Cell (VECC) to use the services of experts, professionals for counselling small units and for providing consultancy support in specified areas.

B. Industrial Finance Corporation of India Ltd.

The Industrial Finance Corporation of India was set up by the Government of India under IFCI Act in July 1948. It is an important financial institution which gives financial assistance to the entrepreneurs through rupee and foreign currency loans, underwriting, direct subscriptions to shares, debentures and guarantees. It also extends other financial facilities like equipment procurement, equipment finance, buyer's and supplier's credit, equipment leasing and finance to leasing and hire-purchase companies.

The IFCI has devised new promotional schemes such as

1. Consultancy fees, subsidy schemes for assisting small scale entrepreneurs in marketing sector.
2. Interest subsidy schemes for women entrepreneurs.
3. Pollution control in small and medium scale enterprises.
4. Encouraging the modernisation of tiny, small and medium scale industries.
5. Industrial Credit and Investment Corporation of India Ltd. (ICICI):

The ICICI was established by the Government of India under the Companies Act 1956, with the objective of providing financial assistance to the small and medium scale sectors. The main functions of ICICI are as follows:

1. Financial assistance is extended by way of rupee and foreign currency loans, underwriting and direct subscriptions to shares, debentures and guarantees.
2. Financial facilities such as deferred credit, leasing credit, instalment sale, asset credit and venture capital are given by ICICI.
3. It also guarantees loans from other private investment sources, small scale units are the major beneficiary of the ICICI assistance.

C. Life Insurance Corporation of India (LIC)

The LIC was established under the LIC Act in 1956. It offers many insurance policies to give social security to various segments of society. As per its investment policy, LIC invests 75% and above in Central and State Government's securities including government-guaranteed marketable securities and in the socially-oriented sector. The LIC gives loans for activities like housing, rural electrification, modernisation of industry, expansion, diversification of industrial ventures, water supply and sanitation etc.

D. Unit Trust of India (UTI)

The UTI was set up by the Government of India in 1964 under an Act of Parliament. The chief objectives of UTI are to mobilise savings of small investors through sale of units and to channelize these savings towards corporate investment. The UTI has introduced many schemes which aimed at common investors. These schemes are mainly Primary Equity Fund, Retirement Benefit Plan, Grihalaxmi Unit Plan, Unit Scheme 1995 and Columbus India Fund. The UTI also provides financial assistance to corporate sector in the form of term loans and underwriting direct subscriptions to shares and debentures.

E. Small Industries Development Bank of India (SIDBI)

SIDBI was established in 1989 as a subsidiary of IDBI under a Special Act. The main functions of SIDBI are the promotion and development of small scale industries by way of financing. It commenced its operations from 2 April, 1980 with its head office at Lucknow. The initial authorised capital of SIDBI was 25 crore, which can be extended upto 1,000 crores.

The functions of SIDBI are as follows:

1. To promote small scale industries in semi-urban areas to create more employment opportunities.
2. To undertake technological up gradation and modernisation of existing small scale industries.
3. To expand the channels for marketing the products of SSI sector on both domestic and international markets.
4. To extend seed capital or soft loan assistance under National Equity Fund Scheme/Mahila Udyam Nidhi Scheme.
5. To great direct assistance and refinance for exports of small scale sector.
6. To provide financial assistance to SFCs, SIDCs, Commercial Banks, RRBs through existing credit delivery system.
7. To provide factoring and leasing service.
8. To provide financial assistance to the institutes, organisations for undertaking EDPs.

9. Special emphasis and the new schemes of assistance for marketing support to the small scale sector.

F. Industrial Reconstruction Bank of India (IRBI)

The IRCI was set up in 1971 under the Companies Act to act as an agency to rehabilitate the sick units. But, in the year 1984, the Government of India renamed the IRCI as Industrial Reconstruction Bank of India (IRBI) by an Act of Parliament. Thereafter, it acts as a reconstruction agency to revive, reconstruct and rehabilitate the sick industrial concerns. IRBI plays a significant role in promoting entrepreneurial and industrial development in the country by performing the following functions:

1. It provides financial assistance to industrial concerns.
2. It acts as an agency of State Government, Union Government and other financial institutions as per the authorisation of the Government.
3. It provides consultancy and merchant banking services for reconstruction and development of industrial units.
4. It also helps in providing infrastructural facilities, raw materials, machineries and other tools on the basis of hire-purchase and lease schemes.

G. State Financial Corporations (SFCs)

IFCI provides financial assistance only to large sized industrial undertakings. In order to cater to the needs of the small scale units, the Government of India passed the State Financial Corporations Act in 1951 under which the State Financial Corporations (SFCs) were set up. The first SFC was set up in Punjab in 1953. Today, there are 18 SFCs functioning in the country. State Financial Corporations are managed by a Managing Director, Board of Directors and the Executive Committee is headed by a chairman.

The functions of SFCs are as follows:

1. To advance term loans to small scale and medium scale industrial units.
2. It underwrites the issue of stocks, shares, debentures and bonds of industrial units.
3. It grants loans to the industrial concerns which is repayable within a period not more than 20 years.
4. It subscribes to debentures floated by industrial concerns.
5. It provides financial assistance to small road transport operators, tour operators, hoteliers, hospitals, nursing homes, etc.

H. National Bank for Agriculture and Rural Development (NABARD)

It is an apex development bank in India for all rural credit having headquarters based in Mumbai (Maharashtra) and other branches are all over the country. The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), set up by the Reserve Bank of India (RBI) under the Chairmanship of Shri B. Sivaraman, conceived and recommended the establishment of the National Bank for Agriculture and Rural Development (NABARD). It was established on 12 July 1982 by a special act by the parliament and its main focus was to uplift rural India by increasing the credit flow for elevation of agriculture & rural non-farm sector and completed its 25 years on 12 July 2007. It has been accredited with "matters concerning policy, planning

and operations in the field of credit for agriculture and other economic activities in rural areas in India". RBI sold its stake in NABARD to the Government of India, which now holds 99% stake. It is active in developing financial inclusion policy and is a member of the Alliance for Financial Inclusion.

Objectives of NABARD:

NABARD was established in terms of the Preamble to the Act, "for providing credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting IRDP and securing prosperity of rural areas and for matters connected therewith in incidental thereto".

The main objectives of the NABARD as stated in the statement of objectives while placing the bill before the Lok Sabha were categorized as under:

1. The National Bank will be an apex organisation in respect of all matters relating to policy, planning operational aspects in the field of credit for promotion of Agriculture, Small Scale Industries, Cottage and Village Industries, Handicrafts and other rural crafts and other allied economic activities in rural areas.
2. The Bank will serve as a refinancing institution for institutional credit such as long-term, short-term for the promotion of activities in the rural areas.
3. The Bank will also provide direct lending to any institution as may be approved by the Central Government.
4. The Bank will have organic links with the Reserve Bank and maintain a close link with in.

Role and functions of NABARD:

NABARD is the apex institution in the country which looks after the development of the cottage industry, small industry and village industry, and other rural industries. NABARD also reaches out to allied economies and supports and promotes integrated development. And to help NABARD discharge its duty, it has been given certain roles as follows:

1. Serves as an apex financing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas.
2. Takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.
3. Co-ordinates the rural financing activities of all institutions engaged in developmental work at the field level and maintains liaison with Government of India, State Governments, Reserve Bank of India (RBI) and other national level institutions concerned with policy formulation.
4. Undertakes monitoring and evaluation of projects refinanced by it.
5. NABARD refinances the financial institutions which finances the rural sector.

The other financial institutions are:

1. Small Industries Development Organisation (SIDO):

SIDO is a policy-making, coordinating and monitoring agency for the development of small scale entrepreneurs. It maintains a close liaison with government, financial institutions and other agencies which are involved in the promotion and development of small scale units. It provides a comprehensive range of consultancy services and technical, managerial, economic and marketing assistance to SSI units. It has a network of 28 Small Industries Service Institutes, 30 branch SISIs, 37 Extension Centres, four Regional Testing Centres, one Product and Process Development Centre, three Footwear Training Centres and five Production Centres and ten Field Testing Centres.

Functions:

The main functions of the SIDO are coordination, industrial development and industrial extension service. Some important functions are:

- a) To assess the requirements of indigenous and imported raw materials and components for the small scale sector and to arrange their supplies;
- b) To collect data on consumer items which are imported, and encourage the setting up of new units by giving them coordinated assistance;
- c) To prepare model schemes, project reports and other technical literature for prospective entrepreneurs;
- d) To secure reservations of certain products for the SSIs.
- e) To provide consultancy and training services and marketing assistance to improve the competitive strength of small scale units.
- f) To evolve a national policy for the development of SSIs and coordinate the policies and programmes of various State Governments SIDO is now known as micro, small and medium enterprises development organisation.

2. National Small Industries Corporation Limited (NSIC):

The NSIC was set up in 1955 with the objective of supplying machinery and equipment to small enterprises on a hire-purchase basis and assisting them in procuring Government orders for various items of stores. NSIC provides a wide range of promotional services to small scale units

- a) The Corporation's Head Office is at Delhi and it has four regional offices at Delhi, Bombay, Madras and Calcutta, and eleven branch offices. It has one central liaison office at Delhi and depots and sub-centres. The main functions of NSIC are: To develop small scale units as ancillary units to large-scale industries.
- b) To provide SSIs with machines on hire-purchase basis.
- c) To assist small enterprises to participate in the stores purchase programme of the central government.
- d) To assist small industries with marketing facilities.
- e) To distribute basic raw materials through their depots.
- f) To import and distribute components and parts to actual small scale users in specific industries.
- g) To construct Industrial estates and establish and run prototype production-cum-training centres.
- h) To develop small scale industries in other developing countries on turnkey basis

The NSIC has taken up the challenging task of promoting and developing small scale industries almost from scratch and

has adopted an 'integrated approach' to achieve the socio-economic objectives.

NSIC, in consultation with Rating Agencies and Indian Banks Association, has formulated Performance & Credit Rating Scheme for Small Industries. The Scheme is aimed to create awareness amongst small enterprises about the strengths and weakness of their existing operations and to provide them an opportunity to enhance their organisational strengths and credit worthiness.

NSIC acts as a facilitator to promote marketing efforts and enhance the competency of the small enterprises for capturing the new market opportunities by way of organizing participating in various domestic and international exhibitions/trade fairs, buyers seller meets, intensive campaigns seminars and consortia formation. NSIC helps small enterprises to participate in international/national exhibitions/trade fairs at the subsidized rates to exhibit and market their products, participation in these events provides small enterprises an exposure to the national/international markets.

Buyer Seller Meets are being organized to bring bulk buyers/government departments and micro & small enterprises together at one platform. This enables micro & small enterprises to know the requirements of bulk buyers on the one hand and help the bulk buyers to know the capabilities of micro & small enterprises for their purchases. Intensive campaigns and seminars are organized all over the country to disseminate/propagate about the various schemes for the benefit of the small enterprises and to enrich the knowledge of small enterprises regarding latest developments, quality standards etc.

3. Directorates of Industries of the State Governments:

The small-scale Industries is a State subject and. therefore, the development and implementation of the schemes of assistance to SSIs is the primary responsibility of the State Government. Directorates of Industries in each State do the work relating to the development of industries in general and small scale industries in particular. Each directorate is stalled

with administration and technical officers at State headquarters and by a District Industries Officer with supporting staff in each district. The State Directorates run various training schemes, production schemes and common facilities schemes. They also provide facilities of developed industrial land and factory sheds in industrial estates, allocate quotas of scarce raw materials, certify import requirements and organize industrial cooperatives. Their functions are varied and have grown with the development and diversification of the small scale sector.

3. Conclusion

Finance is the Life-blood of the business. Soothe financial institutions plays a vital role for producing Entrepreneurship in India. The Entrepreneurs have the potential to grab the opportunities. All they need now is the platforms to showcase their talent. Entrepreneurs face so many problems in aspects of financial, marketing, health, family, and problems. As government encouragement and support is very important to entrepreneurs mean while family support is also very essential for development of such entrepreneurs. This study examines to finding the suitable financial institutions for the Entrepreneurs and motivating them to start their own enterprise.

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