Financing Options available for Micro-Entrepreneurs

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Abstract: Entrepreneurship acts as the life blood to the development of any economy. Entrepreneurs are the national assets which have to be cultivated, motivated and nurtured in order to increase productivity in the economy. Given the pivotal role played by entrepreneurs, policymakers worldwide are concerned about alleviating the constraints relating to this trade. Financing is one of the major bottlenecks in the conduction of business. In India 95% of the Industrial units belong to small business which are started and operated by mostly uneducated people who have lack of awareness about the sources of finances available and the various schemes offered by the government. We review two major streams of financing namely funding through government schemes and funding through private institutions. We then introduce a framework that provides a snapshot of various financing sources available to budding entrepreneurs in India. Our aim is to increase awareness among potential and existing entrepreneurs about how they can overcome financing constraints in their business.

Keywords: Entrepreneurship, Financing Institutions, Government Schemes, Small Business

Introduction

Entrepreneurship is the avenue through which an economy can be strengthened and gain prosperity. From the time humans have become civilized they have been sustaining on incomes earned out of various works done. From the time of industrial revolution large scale production came into practice which has given opportunity for large sized entrepreneurs to do business. It has given way for large companies. Today we have reached a juncture wherein the economic development of a country is largely dependent on the employment generation at that place and which in turn depends on the number of entrepreneurs, their potential and their success rates. This whole cycle states the importance and role that Entrepreneurship and Entrepreneurship development has on the society and thereby the growth of a system or economy.

Given the pivotal role played by Entrepreneurship, policy makers worldwide are concerned about alleviating the constraints relating to this trade. Although there are many elements which makeup a business, finance plays a crucial role in taking the business ahead. Financing is one of the major constraints and essential requirement in the conduction of business.

In India 95% of the industrial units belong to small business which are started and operated by mostly uneducated people who do not have the awareness and knowledge about the various sources of finances available and the various schemes offered by the govt. The study is based on reviewing the major streams of financing available to businessman namely government banks and various government institutions.

Review of Literature

1) Marina Klačmer Čalopa, Jelena Horvat, Maja Lalić (2014)- This paper presents the development of start-up companies, their types and potential sources of financing with special emphasis on financing ventures in Croatia. The expected scientific contribution supports the defining stages of development for start-ups, as well as their financing sources at each stage. The goal of the research was to investigate whether Croatia has made a shift from traditional to newer methods of financing. Scientific and research contributions of the paper are reflected in the fact that there is a relatively small number of papers, especially in the domestic literature, that address these issues. Therefore, this research can contribute to a better understanding of the financing strategy of entrepreneurial ventures. Presented and interpreted results could be a useful basis and encouragement for a further research in this and similar topics related to the start-up scene at the local as well as the global level

2) Abdulaziz M. Abdulsaleh1 & Andrew C. Worthington (2013) - There is no doubt that access to finance is of crucial importance for the ongoing and sustainable growth and profitability of small and medium enterprises sector (SMEs) through its role in facilitating the creation of new businesses and nurturing the innovation process as well as promoting the growth and development of existing businesses, which in turn, boost national economic growth. The main motive of this paper is that SMEs significantly differ from large firms in terms of their financial decisions and behavior. Hence, the purpose of this paper is to review the literature on the various financing sources of SMEs taking into account the effects of both SME characteristics and those of the owner–managers on SME financial behavior.

3) William R. Kerr Ramana Nanda (2009) - Surveys of current and potential entrepreneurs suggest that obtaining adequate access to capital is one of the biggest hurdles to starting and growing a new business. Given the important role that entrepreneurship is believed to play in the process of creative destruction – and hence economic growth. This article reviews two major streams of work examining the relevance of financing constraints for entrepreneurship. The first research stream considers the impact of financial market development on entrepreneurship. These papers usually employ variations across regions to examine how differences in observable characteristics of financial sectors (e.g., the level of competition among banks, the depth of credit markets) relate to entrepreneurs' access to finance and realized rates of firm formation. The second stream employs variations across individuals to examine how propensities to start new businesses relate to personal wealth or recent changes therein. The notion behind this second line of research is that an association of individual wealth and propensity for self-employment or firm creation should be observed only if financial constraints for entrepreneurship exist.

4) Jean-Louis Paréa , Jean Rédisb and Jean-Michel Sahutc (2009)- This paper focuses on identifying The development of research in entrepreneurial finance and the proliferation of work focusing on the financial aspects of entrepreneurship .Entrepreneurial finance can be easily confused with the field of venture capital in its broadest .But the study shows that over time the field of entrepreneurial finance has expanded. Researchers are now interested in other phases of company development, before venture capitalists come on the scene, or after they have left. To answer these questions, the paper approaches them from two different angles. Firstly it tries to specify the scope of entrepreneurial finance by identifying the issues surrounding them which have already featured in published research work. Then, it attempts to structure the studies done in this field and suggest some lines of research.

5) David J. Denis (2004) The purpose of this article is to provide an overview of the important issues and questions in entrepreneurial finance, and to partially survey the nascent literature on this topic .The studies reviewed in the article focus on four primary areas of inquiry: (i) alternative sources of capital, (ii) financial contracting issues, (iii) public policy, and (iv) the dynamics of private equity returns. Although much has been learned in each area, this survey highlights several issues in each area.

6) Larry Chavis, Leora Klapper, and Inessa Love (2010),International Differences in Entrepreneurial Finance This paper uses the standardized Enterprise Survey datasets to systematically study the use of different financing sources

for young firms. It finds that in all countries, younger firms rely less on bank financing and more on informal financing. However, it is also found that younger firms have better access to bank finance, relative to older firms, in countries with stronger rule of law and better credit information, and that the reliance of young firms on informal finance decreases with the availability of credit information. Overall, the results suggest that improvements to the legal environment and availability of credit information are disproportionately beneficial for promoting access to formal finance by young firms.

7) Research Thomas J. Chemmanur Carroll School of Management, Boston College And Paolo Fulghieri University of North Carolina-Chapel Hill (2010) ,Entrepreneurial Finance and Innovation: An Introduction and Agenda for Future research. The paper works on the increasing role played by financial intermediaries such as venture capitalists and angels in nurturing entrepreneurial firms and in promoting product market innovation. It has led to great research interest in the area of entrepreneurial finance and innovation. This paper introduces the special issue of the Review of Financial Studies dedicated to entrepreneurial finance and innovation, and highlights some of the promising topics for future research in this area. (JEL G24; G21)

Objective

1) To study the various sources available for financing micro entreprises

Data and Interpretation

Money as the medium of exchange is very important and it becomes even more important when it comes to doing business. According to a recent study over 94% of new businesses fail during first year of operation. Lack of funding turns to be one of the common reasons. Money is the blood line of any business. The long painstaking nevertheless exciting journey from the idea to revenue generating business needs a fuel called capital. That is the reason at every stage of the business entrepreneurs find themselves asking- How do I finance my start up. Here is a comprehensive guide that lists the various funding options for start ups that will help businessman raise capital for one's requirements.

1) **Bootstrapping one's start up business**:

Bootstrapping is another word used for self-funding. It is an effective way of financing when it is just starting the business. It is investing from our own savings or getting money from family and friends. This is easy to raise as it involves less formalities, compliances and less costs of raising. In most cases, family and friends are flexible with the interest rate.

Self-funding should be considered as the first funding option because of its advantages in terms of its flexibility. On a later stage investors or lenders consider this as a good point as it reiterates the interest and responsibility of the entrepreneur in the business.

2) **Crowd funding as a financing option**:

It is one of the new ways of funding a start up that has started in the western countries. It is like taking a loan or investment from more than one person at the same time, when it comes to the process of crowd funding, an entrepreneur will put up a detailed description of his business on the crowd funding platform. The entrepreneur will mention the goals of his business, how much funding he needs and how he would make a profit out of it. Those giving money will make online pledges with the promise of pre-buying the product or giving a donation. Now when should we consider for going for crowd funding as a funding option. It is when it is a risky business, an absolutely innovative idea and one doesn't have any support from family, friends and he doesn't have any savings of his own.

This may help an extremely committed person who has very strong passion for his product / service. It may help him in giving a helping hand to accomplish his long cherished dream.

3) **Angel Investment**:

Angel investors are individuals with surplus cash and having a keen interest to invest in upcoming start ups.They can also offer mentoring or advice along with capital. Angel investors have helped to start up many prominent companies, including Google, Yahoo and Alibaba. This alternative form of investing generally occurs in a company's early stages of growth, with investors expecting up to 30% equity. The popular Angel Investors in India are Indian Angel Network, Mumbai Angels, Hyderabad Angels etc;

4) **Venture Capital**:

Venture capitals are professionally managed funds who invest in companies that have huge potential. They usually invest in a business against equity and exit when there is an IPO or an acquisition. VC's provide expertise, mentorship and acts as a litmus test of where the organization is going. However VC's exercise strict control when it comes to company loyalty and often look to recover their investment within a three to five year time period. So if a business takes a longer time than that to get to market, than venture capital investors may not be interested in it.

5) **Incubators**:

Incubators are like a parent to a child who nurture the business providing shelter, training and network to a business. These days many colleges are setting up incubator facilities to promote their student start ups.

6) **Bank Loans**:

Banks are a promising avenue to Entrepreneurs for getting funds. All banks in India provide finance to the SME sector. The government has been undertaking several steps like setting up of banks and financial institutions, formulating various policies and schemes towards the development of the small and medium enterprises

Financing provided by the government is preferred because of lower rates available under government schemes. Such loans also help in managing the day-to-day funding requirements of a business. There are many public sector banks which work in tandem with various government organisations to provide loans under government-aided schemes. Some of the prominent names are State Bank of India, Andhra Bank and Bank of Baroda, among others.

The public sector banks are the major source of financial assistance to the industrial sector. They extend credit support to the firms in the form of loans, advances, discounting bills, project financing, term loans, export finance, etc. Some of the major examples of such banks are:-

A) **State Bank of India (SBI)** provides a wide range of financial products and services that can cater to any business or market requirement. It deploys multiple channels to deliver solutions for all financial challenges faced by the corporate . It covers the following funding schemes namely:-

i) Working capital finance, extended to all segments of industries and services sector.

ii) Corporate term loans to support capital expenditures for setting up new ventures as also for expansion, renovation, etc.

iii) Deferred payment guarantees to support purchase of capital equipment.

iv)Project finance

v)Structured Finance

The bank also provides financial assistance to agriculturists through a network of rural and semi-urban branches. These specialized branches have been set up in different parts of the country exclusively for the development of agriculture through credit deployment. Their schemes cover a wide range of agricultural activities like crop loan, finance to horticulture, farm mechanization schemes, land development schemes, minor irrigation projects, agricultural term loans, etc.

B) **Bank of Baroda** offers various products and services that meet the specific requirements of business enterprises, particularly the small scale units. Various schemes relating to the provision of loans and advances by the bank include:-

i)Working Capital Finance

ii)Term Finance

iii)Small and Medium Enterprise (SME) Loan Pack

iv)Small Business Borrowers

v)Traders Loan

C) **Andhra Bank** has also devised a host of loan schemes to meet the financial requirements of an enterprise. These particularly cater to the corporate and agricultural sector. Some of its important funding options include:-

i)Working Capital Loans

ii)Export & Import Finance

iii)Advance against Shares

iv)Term Finance

v)Corporate Loans

vi)Project Finance

vii)Infrastructure Project Finance

viii)Self Help Groups-Bank Linkage Programme

Small scale industries need credit support on a continuous basis for running the enterprise as well as for its diversification and modernisation. Recognising the need for a focused financial assistance to such industries, the Government of India, together with the State Governments, has formulated several policy packages including schemes and funds for their growth and development. Most of these programmes of the Central Government are implemented through two principal organisations:-

Loan Schemes and Facilities initiated by the Government of India

Apart from banks which provide financial support to small business through special loan schemes, the government of India has also set up schemes and makes use of different associations in order to cater to businesses which might require financial support. Most of the programmes initiated by the government are implemented through the following organisations –

A)**Small Industries Development Organisation** (SIDO)

It serves to promote and helps in development of small scale industries. The major functions of this entity are as follows.Advising the government on new schemes for small scale industries Conducting surveys on the small scale industry sector and ascertaining key growth factors

Liaison with central ministry, planning commission, state governments, financial institutions and other organisations related to the development of small scale businesses Helping in linking small scale industries to large and medium scale industries Development of human resources through training and skill upgrades

For the above-mentioned functions, some of the schemes put forth by SIDO are as follows –

i)Credit Linked Capital Subsidy Scheme for Technology Up gradation

ii)Credit Guarantee Scheme

iii)ISO 9000/ISO 14001 Certification Reimbursement Scheme

iv)Integrated Infrastructure Development (IID Scheme)

v)SSI MDA Scheme

vi)Assistance to Entrepreneurship Development Institutes

vii)Micro Finance Programme

B)**National Small Industries Corporation Limited** (NSIC)

Established to provide specially tailored schemes that facilitate Marketing support through promotion and other contemporary means of marketing Credit support through functions like –

i)Equipment financing

ii)Raw material procurement financing

iii)Marketing activities financing

iv)Bank-syndication aided financing

v)Performance and credit rating system

Technology support which allows material testing, implementation of new techniques, energy and environment services and training facilities

C) **Small Industries Development Bank of India** (SIDBI)

Established in 1990, this institution is by far the most popular one when considering the growth and development of small businesses. The schemes provided by SIDBI are as follows –

i)Direct Assistance Scheme

ii)Indirect Assistance Scheme

iii)Promotional and Development Activities

iv)National Equity Fund, Scheme

v)Technology Development and Modernization Fund Scheme

vi)Single Window Scheme

vii)Mahila Udyam Nidhi (MUN)

viii)Scheme and Equipment Finance Scheme

D) **National Bank for Agriculture and Rural Development** (NABARD)

It promotes mainly agro-based rural businesses. The financial aid offered by NABARD is extended mainly to cottage and village industries

Government subsidy for small business in india

Government subsidy for small business is very much effective in any small scale industry. Many incentives are provided both by the Central and State Governments to promote the growth of small-scale industries specially MSME. Here is a list of 10 best Government subsidy for small business will help you in getting the subsidy from Government in different sectors. This is an overview of government subsidy for small business which will help subsidy from government in different sectors.

1. **The Credit Guarantee Fund Scheme for Micro and Small Enterprises**

The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE) was launched by the Government of India to provide collateral-free credit to Indian MSMEs. Both the existing and the new enterprises are eligible for the scheme. The Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI) established a trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the scheme.

The scheme provides credit facilities in the form of term loans and working capital facility of up to Rs. 100 lakh per borrowing unit. The amount is contributed by the Government and SIDBI in the ratio of 4:1, respectively. The scheme also offers rehabilitation assistance to sick units covered under the guarantee scheme.

2. **Technology Upgradation Fund Scheme (TUFS) For Textile Industry**

Ministry of Textiles introduced the Technology up gradation fund scheme (TUFS) for textiles and jute industry in April 1999 to facilitate induction of state-of-the- art technology by the textile units. It includes the benefits like 5% interest reimbursement of the normal interest charged by the lending agency or 15% credit linked capital subsidy for SSI sector, or 20% credit linked capital subsidy for power loom sector, or 5% interest reimbursement plus 10% capital subsidy for specified processing machinery.

3. **Scheme for Technology Upgradation/ Establishment/ Modernization for Food Processing Industries**

This Scheme covers the following activities: Setting up/expansion/modernization of food processing industries covering all segments viz fruits & vegetable, milk product, meat, poultry, fishery, oil seeds and such other agri-horticultural sectors leading to value addition and shelf life enhancement including food flavours and colours, oleoresins, spices, coconut, mushroom, hops. The assistance is in the form of grant subject to 25% of the plant & machinery and technical civil work subject to a maximum of Rs. 50 lakh in General Areas and 33.33% up to Rs. 75 lakh in Difficult Areas.

4. **Integrated Development of Leather Sector – Scheme for Leather Industry**

The scheme is aimed at enabling existing tanneries, footwear, footwear components and leather products units to upgrade leading to productivity gains, right-sizing of capacity, cost cutting, design and development simultaneously encouraging entrepreneurs to diversify and set up new units. Newly eligible units would be approved for assistance under the scheme only on submission of the copy of all the required registration, NOCs from all concerned Government Departments for setting up of the unit and when the factory building is ready for installation of plant and machinery.

5. **Credit Linked Capital Subsidy Scheme for Technology Upgradation (CLCSS)**

Upgradation of the process as well as the corresponding plant and machinery is important to help SMEs reduce the cost of production and remain price competitive in the global market. To help SMEs flourish in international trade markets, the Ministry of Small Scale Industries (SSI) runs a scheme for technology up gradation of Small Scale Industries. Known as the Credit Linked Capital Subsidy Scheme (CLCSS), it aims at facilitating technology up gradation by providing the upfront capital subsidy of 15% (limited to maximum Rs.15 lakhs) to SSI units for credit availed by them for the modernisation of their plant and machinery. All sole proprietorship, partnership firms, cooperative, private and public limited companies are eligible for this scheme.

6. **Market Development Assistance Scheme for Micro, Small & Medium Enterprises**

The scheme offers funding for participation by manufacturing Small & Micro Enterprises in International Trade Fairs/ Exhibitions under MSME India stall; sector-specific market studies by Industry Associations/ Export Promotion Councils/ Federation of Indian Export Organisation; initiating/ contesting anti-dumping cases by MSME Associations and reimbursement of 75% of one-time registration fee; and 75% of annual fees (recurring) paid to GSI (Formerly EAN India) by Small & Micro units for the first three years for bar code.

7. **Technology & Quality Upgradation Support for MSMEs**

In an effort to increase the adoption of quality standards by the MSME sector of India, Government provides a subsidy for acquiring ISO certifications like ISO 9000, ISO 14001 and HACCP. The initiative under the NMCP aims to increase productivity, upgrading technology and conserving energy in the manufacturing process as well as expanding domestic and global market share of Indian MSME products.

8. **Mini Tools Room and Training Centre Scheme**

To assist state governments set up Mini Tool Room and Training Centres, the Government of India provides financial assistance in the form of one-time grant-in-aid. The financial aid equals to 90% of the cost of machinery/equipment (maximum to Rs. 9 crore) in case new Mini Tool Room has to be created and 75% of the cost (maximum to Rs. 7.50 crore) in case an existing room has to be upgraded. The main objective of this scheme is to develop more tool room facilities in order to provide technological support to the MSMEs and training facility in tool manufacturing and tool design to create a workforce of skilled workers, supervisors, engineers/designers, etc.

9. **Government Subsidy for Small Business from NSIC**

NSIC provides two basic subsidies. Such as raw material assistance and marketing assistance. Raw Material Assistance Scheme aims at helping Small Scale Industries/Enterprises by way of financing the purchase of Raw Material (both indigenous & imported). This gives an opportunity to SSI to focus better on manufacturing quality products. Under the Scheme, marketing support is provided to Micro, Small & Medium Enterprises through National Small Industries Corporation (NSIC) to enhance competitiveness and marketability of their products.

10. **Government Subsidy for Small Business for Cold Chain**

The objective of the scheme of Cold Chain, Value Addition and Preservation Infrastructure is to provide integrated cold chain and preservation infrastructure facilities without any break from the farm gate to the consumer. It covers pre-cooling facilities at production sites, reefer vans, mobile cooling units as well as value addition centres which includes infrastructural facilities like Processing/Multi-line Processing/ Collection Centres, etc. for horticulture, organic produce, marine, dairy, meat and poultry etc. Individual , Groups of Entrepreneurs, Cooperative Societies, Self Help Groups(SHGs), Farmers Producer Organizations (FPOs),NGOs, Central/State PSUs etc. with business interest in Cold Chain solutions are eligible to setup integrated cold chain and preservation infrastructure and avail grant under the Scheme.

Conclusion: Though the small and medium enterprises are the backbone of Indian economy, most of the SME owners face a lot of problem due to non-availability of timely and adequate credit at the reasonable rate of interest. In addition, arranging collateral security or third party guarantee becomes a tough proposition to them. The financing constraints are due to a number of reasons, including stringent policies, legal/regulatory framework, institutional weaknesses and lack of reliable credit information. A business loan under a government scheme is always favourable due to its lower interest rates. In India both state and central government have framed various policies and schemes to meet to the financial requirement of small businesses across the country. Many Public sector banks like SBI, Andhra Bank, Canara Bank, Allahabad Bank and Bank of Baroda offer various financial schemes to small business owners. These schemes help the entrepreneurs obtain financial products and services according to their business requirements. The basic problem in India is that although we have ample number of government banks, n-number of schemes offered and a high willingness of the government to help in financing requirements of Entrepreneurs, there is lack of awareness among the general public about these options available. This could be because of two reasons 1) Most of the small businessman are illiterate and do not have knowledge that they can explore and 2) Lack of commitment from the side of Government banks in creating this awareness among entrepreneurs. Now the situation is a little better due to Government setting targets to institutions in terms of conducting training programs, workshops and thereby creating awareness in public about the options available. This paper is an attempt to present a comprehensive list of the various schemes available to funding businesses.

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