

A Study on Financial Service for Entrepreneurs and Small Enterprise

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ABSTRACT

The Small Enterprise Information and Research Centre Network (SENET), was launched in April 1997. SENET has been awarded the golden icon national award 2005 for “Best Documented Knowledge Resource” under professional category by the Department of Administrative Reforms and Public Grievances (DARPG), Government of India. In August 1984, the Government of India passed an Act converting the Industrial Reconstruction Corporation of India (IRCI). It is Industrial Reconstruction Bank of India (IRBI) the IRBI was established in March 1985 to take over the IRCI. The IRBI was to function as the principal all India credit and reconstruction agency for industrial revival, assisting and promoting industrial development and rehabilitating industrial concerns. The Tamil Nadu Investment Corporation Limited is an apex state level financial institution primarily intended for assisting the small and medium scale industrial units. Until the 1970's conventional Development Finance Corporations were considered as a main vehicle for channeling loan funds to small industries. The Bank under study may have specialized branches in each district to the loan requirements of the small-scale industries. Adequate delegation of power at the branch level may be given so as to avoid several layers of hierarchy in granting loans to SSI units.

Keywords: Small scale industries, financing and development, District Industrial Centre (DIC).

INTRODUCTION:

All around the globe, micro- and little endeavors are a basic driver of advancement, work creation and financial improvement. These are undertakings make up the social texture and produce manageable improvement since they are solidly established in their networks. Nonetheless, in creating and rising nations, constrained access to financing is frequently an obstruction to the creation, development and maintainability of these undertakings. Micro- and little ventures bolster both generation and neighborhood utilization. Moreover, they at times give their items and administrations to bigger endeavors that contribute, thusly, to monetary development and network advancement. In doing as such, they specifically empower the advancement of the private segment and the formation of a huge number of employments available to impeded people, fit for lifting them out of neediness and detachment.

This positive effect is simply more imperative since not every person has what it takes or potential to end up business people: some of them require ventures to be made and develop around them, fit for giving them the employments they require. It is, consequently, critical to make financing and the other money related administrations required by business visionaries available to them to empower them both them and the workers they contract to assume their legitimate position in the economy and in this manner build up their maximum capacity as drivers of monetary development.

Satisfactory access to monetary administrations for business visionaries empowers living conditions to enhance, not just for the people who advantage from them, yet in addition for their families and their locale all in all. By and large, fortifying the creation and development of little job-creating ventures adds to growing the positions

of the white collar class, with the majority of the following positive effects: expanded access to human services, training, lodging and transportation, general financial advancement, bolster for vote based system and adjustment of society. By making accessible to micro- and little undertakings a particular offering of monetary administrations custom fitted to their necessities, money related cooperatives and other microfinance organizations make it conceivable, from one perspective, to incorporate monetarily business visionaries with restricted or no entrance to the administrations offered by banks and, then again, the continuation of the help they offer to their individuals and customers whose business exercises have created after some time.

This continuity is crucial for these entrepreneurs WHO, despite having progressed within the rationalization of their activities and currently having the ability to qualify with banks, would like to take care of the business link and therefore the relationship of trust they need established with their microfinance establishment. For the latter, by so holding the loyalty of a member or shopper it's ready to increase its business volume, sustain its operations and so pursue its efforts of monetary inclusion with a bigger range of people by introducing a style of intercession between its varied people teams.

REVIEW OF LITERATURE:

Inderjit Singh and Gupta, in their book on "Financing of small industry" also pointed out the inadequacy of institutional credit. They concluded that only 5.1 per cent of the borrowers were financed by institutional finance. Kopardekar, attributes excess capacity remaining unutilized in small firms was due to the lack of adequate finance. The lack of adequate finance especially in meeting working capital requirement leads to inefficient utilization of the installed capacity, which in turn leads to inconsistent operation of the units. Many units are not in a position to apportion funds to fixed and working capitals.

Rajula Devi, in her article entitled "Small Enterprises for Rural Industrialization Programme and Perspective" found that the problems encountered by the small enterprises were becoming increasingly complex, and the small entrepreneurs were often baffled by a maze of regulatory measures. The woes of the entrepreneurs stem from lack of clear policy perspective. A common view shared by the entrepreneurs and those who were promoters of the growth of small-scale sector was that as long as there was no change in the attitude of policy makers the problems would remain unsolved.

Choudhuri, in his study entitled "Capital Structure Planning in Small-Scale Industries", stated that the recent years had witnessed a democratic expansion of the small business sector in almost all parts of the world. A greater degree of awareness to produce goods and services conforming to national and international standards would be created among the SSIs units. He also observed that the finance was the crucial problem for the survival of SSIs sector. He suggested that adequate institutional credit to SSI should be made available on priority basis. Prompt processing of working capital applications and extension of overdraft facilities were the other recommendations made by him.

According to Ravindra Gowda and Shivakanth Shetty, being one of the major growth driver of the economy, the biggest challenge before the SMEs in the emerging market scenario is not only to survive but to grow on a sustainable development through either technology transfer or innovations or inter-firm linkages should be emphasized in the light of global competition. Financial infrastructure need to be broadness and adequate inflow of credit to the consideration the growing investment demand. In the context of economic reforms and globalization the small-scale industries must be competitive for their survival and growth otherwise they will perish resulting in colossal waste of scarce resources unemployment and retard the process of industrialization.

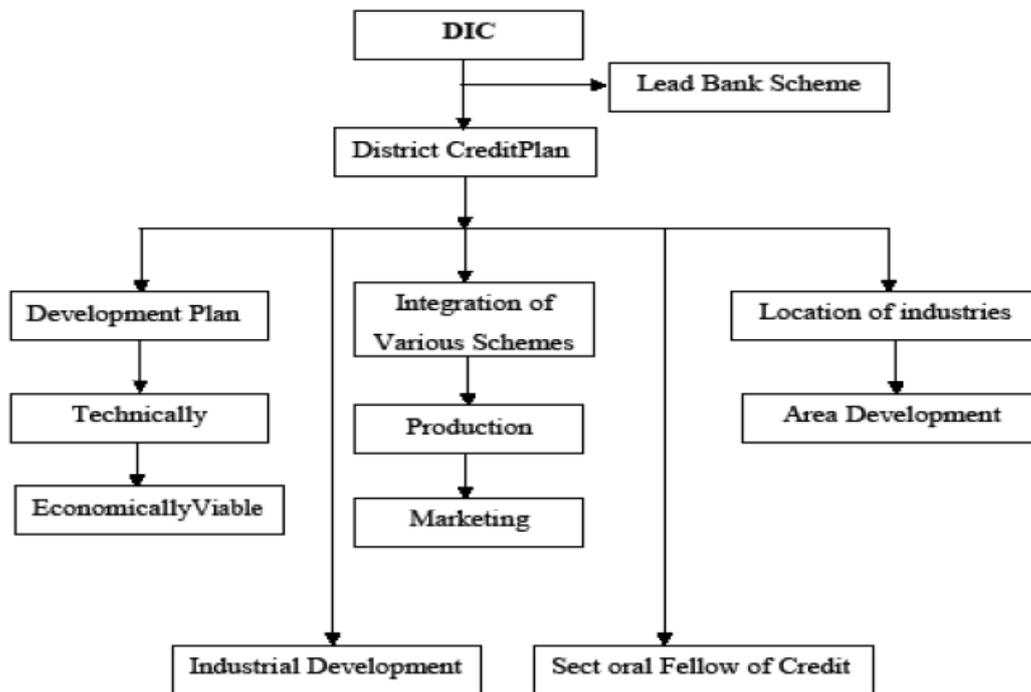
Financial Services for Small Enterprises:

The giving economic services to entrepreneurs is most frequently focused between tiny microfinance establishments (or ancient MFIs) and ancient financial establishments. On the one aspect, tiny microfinance establishments supply loans whose characteristics are seldom applicable to the realities of entrepreneurs: standardized cluster loans or microloans that targeted a less organized people with magnified risk, capped loan amounts, money product less well outlined and fewer well custom-made to the requirements of entrepreneurs, costlier loans to offset higher operational prices and therefore the absence of the experience needed to adequately coach and advise entrepreneurs.

At the opposite finish of the time, ancient money establishments impose necessities and vital delays particularly thanks to the high risk of default exhibit by tiny enterprises and therefore the quantity of the loans offered and therefore the corresponding service fees are usually preventive for such enterprises. The gap determined between these 2 poles is increased by factors like the absence or deficiency of an agency, the mediocre quality

of the obtainable info and therefore the lack of mechanisms for recording collateral and imposing contracts. This gap is additionally bolstered by the entry barriers that undermine each the arrogance entrepreneurs have to be compelled to do their entrepreneurial project and therefore the means that at their disposal to access applicable funding (little or no rationalization, no credit history and few or no formal guarantees) in economic and political environments that amplify the danger and reinforce this defect. The polarization of the money services giving combined with the barriers moon-faced by entrepreneurs’ puts them during a scenario during which they need no access to money services tailored to their wants and offered beneath reasonable terms that take under consideration their reality.

Figure 1: Horizons of District Credit Plan of Dics.



Source: District Industries Center.

A Specific Niche Approach:

Entrepreneurs’ operational micro- and little enterprises exhibit special characteristics that has to be understood and down by money establishments anxious to satisfy their needs:

- Unlike staff, whose money flows are predictable , entrepreneurs have irregular money flows the cycles of that are associated with their activity sector and are usually troublesome to predict;
- The loans requested by entrepreneurs entail larger amounts with longer terms; managing these loans is additional advanced, which needs further expertise;
- Most of the time, the method of assessing the compensation capability cannot be done by analyzing formal money statements; thus, various mechanisms should be designed to obviously establish the money position of entrepreneurs;
- Often, a mix of many business activities among a similar company is determined, that complicates their analysis;
- Experience shows that entrepreneurs usually have very little accumulated savings to secure the loans they apply for; they like reinvesting their cash in their business or in making personal assets. Therefore loaning establishments have to be compelled to determine alternative routes to ensure the loans granted and, above all, enhance their risk management procedures;
- Every line of business is related to its own characteristics, risks and regulations; loan officers allotted to a people of entrepreneurs should, therefore, possess careful data of the business sectors during which their shoppers operate and therefore the gain of the receiver enterprises.

Specialized and Qualified Human Resources:

Financial services for entrepreneurs embody enough specificity to need specialized resources to have interaction

within the analysis of the requirements of the people, assessment of the risks incurred and authorization and observance portfolios. A decent data of the business sectors supported can avoid granting loans in to fault risky activities or that don't adjust to the borrowers' compensation capability, so preventing over-indebtedness. This data also will build it possible to recognize that true entrepreneur's area unit an element essential to the success and viability of the following funding activities. Additionally, specialized loan officers are higher able to provide sound recommendation and anticipate the requirements of entrepreneurs, that area unit factors that contribute to developing a relationship with the borrowers which will be profitable for each the latter and also the establishment. The specialization of the loan officers needs adequate and regular coaching furthermore as employment and shut direction. It additionally needs these agents to be engaged within the same sector long enough to master it. Finally, it's necessary to properly phase loan portfolios to confirm a decent match between the amount and quality of the accounts assigned to a loan officer. We have a tendency to should not minimize the hassle to speculate within the definition of associate degree adequate and strategic program of incentive compensation capable of rallying the interests of all stakeholders. Once properly developed, incentive compensation will act as a robust performance vector for the staff and facilitate retain high talent at intervals the establishment. Any incentive scheme ought to be supported developing the portfolio, however additionally on maintaining its quality, thus on accomplish the specified objectives. To encourage sensible recipient behavior, some incentives also can target the money institution's people.

Responding to A Diversity of Service:

Besides the very fact that they have versatile conditions custom-made to their reality, entrepreneurs additionally want a range of economic services targeting each the event of their enterprise and also the satisfaction of the requirements of their family: credit, agricultural credit, housing loans, insurance and savings. Providing effective associate degreed secure transactional services additionally meets a growing want proportional to the event of an enterprise. Thus a financial organization must integrate effective payment systems, funds transfer or currency exchange services. The absence of such services usually forces enterprises to try and do business in additional than one place, that doesn't foster shopper retention and indirectly encourages paying off one loan with another. Altogether cases, the financial organization ought to take into consideration the special characteristics and constraints associated with its market once developing its service providing or going in partnerships with alternative suppliers of economic services.

Business Credit:

Business credit seeks to boost the assembly activities and also the operations of associate degree enterprise (regardless of however little it is), as an example, by getting instrumentation, inputs or inventory, that typically helps consolidate or increase the enterprise's profits. This feature implies that the reimbursement of an advertisement loan is typically done supported revenues generated by the activity or the acquisition that this same loan has created attainable. this sort of credit is kind of totally different from line of credit as its reimbursement is additional associated with the enterprise's revenues, the dimensions and frequency whereof depends on the performance of the business, and not a daily earnings. that the reimbursement of a bank loan depends on many variables that has to be evaluated often like reimbursement capability (based on the financial gain statement), the capability of injecting capital (based on the enterprise's balance sheet), the performance and also the potential for the expansion of the enterprise, furthermore because the liquidity at its disposal.

The main credit product offered by a financial organization could also be supplemented by additional specific product that focus on, as an example, micro-enterprises or girls merchants operating in markets, which is able to build it attainable to extend the contribution of the establishment to the money inclusion of a larger proportion of the community within which it's unmoving.

Agricultural Credit:

Farmers also are entrepreneurs and, therefore, want specialized money services, particularly as they're a category of entrepreneurs notably at risk of extortionate lenders. the planning associate degreed management of an agricultural funding service providing necessitates taking into consideration an oversized range of things, like money flows and also the risks coupled to the management of associate degree agricultural activity. The management of finance risks related to this sort of enterprise ought to, therefore, be custom-made to those various factors.

Housing Loans:

DIC's expertise shows that the housing finance providing meets a awfully robust demand, particularly from entrepreneurs. These product will facilitate entrepreneurs acquire, renovate or expand business premises, homes or flats that they'll then hire out or perhaps personal faculties managed by them. They'll additionally facilitate them build their personal assets, which might be all the additional important since it's usually terribly troublesome for these people to urge a mortgage unless they need a daily earnings. Expertise shows additionally that these products contribute to the nice money results of the establishments that supply them. additional typically, a housing finance providing tailored to native realities could contribute to increasing the supply of quality housing for the disadvantaged; the financial organization providing this sort of funding so contributes not solely to rising the money inclusion of the population, however additionally its quality of life and native economic process.

Insurance:

A financial organization ought to provide borrowers a loan insurance product to safeguard family wealth, additionally to the establishment itself. Further life, property, casualty or crop insurance ought to be offered once out there on the market. Moreover, since entrepreneurs seldom have access to a programme, the financial organization will fill in a vital gap by providing its shoppers a micro- pension product. All of those insurance products ought to be offered by a proper owned or related to the financial institution.

Savings:

DIC's expertise shows that, whereas voluntary savings meet a necessity, most entrepreneurs favor to reinvest their savings in their business or just use them to fuel their capital and their inventory, perform their current operations or fund their personal desires. In general, it's additional profitable for them to reinvest their surpluses in their business to support its growth. notwithstanding, by providing savings product tailored to the requirements of its completely different people teams, the financial organization encourages its shoppers to adopt sound money habits, whereas effort an extra supply of finance that reduces their vulnerability to external shocks.

The savings product offered could embrace sight savings accounts (current accounts), term deposits (which can increase the supply of long-term resources for the institution) and proximity product for the regular assortment of little savings, with few group action prices and ideally requiring no minimum balance. This last form of product meets the requirements of entrepreneurs within the method of systematization UN agency want to deposit their daily financial gain and so have receipts confirming this financial gain. Required or pledged savings, though it contributes to the creation of wealth and secures the loans granted, ought to be unbroken at a minimum threshold. It ought to vary in step with the kind of finance requested by the recipient and reduce in step with the degree of risk connected to the current finance and different out there collateral.

Transactional Services:

Experience shows that, when disposal, transactional services are those most requested by entrepreneurs. They must so be able to simply access their funds, create payments or collect amounts owed. Planning services meeting these desires and also the use of effective technologies to create these services user-friendly and economical is, therefore, imperative. The impact of transactional services on the standard of the loan portfolio isn't negligible, particularly within the case of small and tiny enterprises. For instance, the mere truth of not providing entrepreneurs the flexibility to create remote deposits could cause delays in loan payments, which could outright have an effect on the portfolio in danger (PAR) one day. Also, the shortage of payment services (such as checks) pushes growing businesses to show to banks to fulfill their transactional desires that promotes the dissemination of borrowers and reduces the transparency of operations. Money management is additionally a part of the transactional services needed by entrepreneurs. This management remains a challenge for microfinance establishments, that ought to increase the flexibleness of withdrawal services for entrepreneurs in order that they aren't forced to stay giant sums with them as a result of they don't have fast access to funds.

Business Development Services DIC acknowledges that business development services targeting money education and also the improvement of entrepreneurs' skills are factors that formalize businesses and mitigate risks. They contribute on to each the success of the enterprises and also the money establishments that serve them. These services ought to be offered in partnership with external suppliers. Expertise shows that one in every of the most factors obstructive the event of enterprises is that the lack of the entrepreneurs' money education and technical skills, particularly in designing, accounting and management. Therefore microfinance establishments would move to remedy these shortcomings. Indeed, by strengthening these entrepreneurial skills, the establishment can thereby enhance the compensation capability of its shoppers. Though the money

institution's credit counselors associate degree loan officers are able to play a consoling role by wishing on the special relationship they establish with supported entrepreneurs, this role ought to be restricted to the sphere of economic education and finance.

To help entrepreneurs strengthen their entrepreneurial skills, prepare their business set up or formalize their accounting, money establishments ought to rather refer them to the acceptable resources or develop partnerships with external organizations specializing within the providing of such support services. These services mustn't be funded from the money mediation unfold, however preferably be procured in step with a special worth schedule. However, writing a business set up mustn't be a condition essential to finance a project, however preferably be inspired on a voluntary basis. Expertise shows so that business plans, though they're a vital step in associate degree entrepreneur's progress by serving to him to raise the correct queries and validate however realistic his project is, are generally necessitated by third parties and are, therefore, not totally down pat by the entrepreneurs UN agency file them.

The business set up alone is, therefore, not a guarantee of success for a given business project. From this viewpoint, additional stress ought to be placed on providing technical employment to the bourgeois. Victimization Technologies DIC acknowledges the importance of technology as an element for reaching, user-friendliness, speed, security associate degree potency all key factors for an entrepreneur's success. Technology facilitates the management of operations by the financial organization and makes money services additional accessible to entrepreneurs. For a financial organization, technology solutions guarantee higher watching of operations, raising the delivery of product and services, enhancing the safety of transactions and information and promoting smart governance and enlightened decision-making. DIC, therefore, advocate once possible¹⁸ the employment of technology to support all systems of a money institution:

- Support systems (financial management and accounting, marketing, workplace automation, telecommunications, workflows, etc.)
- Operational systems (savings, credit, insurance, transactions)
- Governance systems (decision-making support and responsibility)

Considering the importance, for a financial organization dedicated to the finance of entrepreneurs, to make sure shut watching of loans granted, it's imperative use of technological systems which will make it attainable to gather and effectively share information. The processes of analyzing and granting, taking collateral, disbursements, watching and collections ought to all be organized and, to the extent attainable, automated, so the whole finance operation are going to be standardized and treated uniformly. The employment of real-time databases is additionally essential for the management and watching of the loan portfolio since it'll create it attainable to quickly observe any late payment additionally to facilitating and standardizing risk management.

Financial establishments ought to conjointly place technology at the service of user-friendliness and also the proximity of services for the entrepreneurs served: mobile transactional applications, loan payments by cellular telephone, texting payment reminders, sensible cards, biometrics, postpaid credit cards, etc. protective the surroundings DIC encourages money establishments to adopt awareness-raising measures so as to safeguard the surroundings, however notwithstanding believes that these establishments have restricted power with relevancy environmental protection, specially, together with the absence of oft discovered clear and implemented rules to modify them to introduce the principle of eco-conditionality within the granting of loans.

A microfinance establishment must fit the restrictive necessities in effect within the region or country involved with relevancy the surroundings. It ought to conjointly adopt associate degree environmental policy, establish an inventory of exclusions specifying that practices or business sectors are to be avoided and determine mitigation measures to be advocated in cases wherever risks to the surroundings seem. Loan officers ought to even be tuned in to surroundings problems and also the potential impact on the environment of bound industrial practices, for instance, by attending topical coaching sessions, so as to orient, as needed, entrepreneurs to additional environmentally sound and respectful practices. Lastly, money establishments ought to themselves adopt best practices with relevancy their own use and recovery of resources. It ought to notwithstanding be recognized that the commitment of a financial organization during this regard is proscribed by the environmental laws in effect within the region or the country involved.

CONCLUSION:

By providing to small and tiny enterprises money services tailored to their desires and their reality, money establishments are creating a serious contribution to the creation of jobs and also the socioeconomic development of their communities. To do this, they have to treat this people as a selected niche, which needs

distinct practices and experience. They have to provide a heterogeneous vary of product and services to fulfill all the particular desires of the entrepreneurs. These product and services should even be provided on terms that acknowledge the truth of the entrepreneurs. altogether cases, the availability of specialized services to entrepreneurs ought to be marked by proximity a condition essential to a decent understanding of the persons and sectors supported, likewise as adequate employment which will contribute each to fostering systematization and also the correct development of enterprises and to encouraging correct behavior on the a part of the borrowers. Costume ought to be practiced in any respect stages of the analysis, granting and watching of loans, because it is at this worth that the financial organization will guarantee its property and continue its contribution to the event of the personal sector.

The numerous testimonies received from supported entrepreneurs well replicate the big impact provided to them by a larger access to money services, at many levels: personal and entrepreneurial development, self-fulfillment, pride, money education, asset-building and independence. Creating the money services required by small and tiny enterprises additional accessible associate degreed providing these money services in an exceedingly rigorous and viable manner is additionally an engine of development that's economic likewise as personal and biological process for each people and also the communities they sleep in.

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