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**SHRI DHARMASTHALA MANJUNATHESHWARA  
LAW COLLEGE, CENTRE FOR POST GRADUATE  
STUDIES & RESEARCH IN LAW,  
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**Centre for Post Graduate Studies & Research in Law**

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(NAAC Re-accredited B++ (GPA 2.9))

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**START UP INDIA**  
**SOCIO-ECONOMIC OPPORTUNITIES**  
**AND CHALLENGES**  
**A LEGAL PERSPECTIVE**

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# Financial Institutions and their Role in Entrepreneurship Development

Apeksha S. Kottari <sup>1</sup>

## Abstract

*Entrepreneurs are the agents that help drive the country's economy by using their skills to anticipate what their customer wants and bring new ideas into the market. In recent years, the young generations have preferred self-employment over working for a company or an organization. One of the essential requirements for any entrepreneur to bring their ideas and plan into action is investing capital in it. There are different ways to invest in their business, i.e., through savings, funds collected from friends and families, bank loans, financial institutions, Government schemes, and others. In this study, the researcher has chosen Mangaluru city to study various financial institutions and their role in Entrepreneurship Development. The study is based on primary data collected through the personal interview method. It can be inferred from the data collected that most respondents were aware of the government schemes but had limited knowledge about them. Even though most respondents knew the various schemes and loans offered by the banks, they were hesitant to utilize them as they needed sufficient knowledge and information about them, as the information provided needed to be more comprehensive. Moreover, they assumed that the procedure was time-consuming due to other pre-determined thoughts about schemes. There is a need to make people understand the practical applications of these loans and schemes and help them to avail the various benefits provided by the Institutions set up by the government.*

## Introduction

An entrepreneur is an individual who creates a new business, bearing the risks and enjoying its rewards. The entrepreneur is an innovator, a source of new ideas, goods, services, procedures, and business. An entrepreneur: 'is an economic agent who unites all means of production; 'the land of one,' 'the labor of another,' and the 'capital of yet another,' thus producing a product.

Entrepreneurship is the process of designing, launching, and running a new business. It is the capacity and willingness to develop, organize and manage a business venture along with any of its risks to make a profit. Entrepreneurship plays an imperative role in the growth of any society. Entrepreneurship emerges from an individual's creative spirit into long-term business

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ownership, employment creation, capital formation, and economic security.

Entrepreneurs shape the financial destiny of nations by creating wealth and employment, offering products and services, and generating taxes for governments; hence entrepreneurship is linked to the country's financial growth. Entrepreneurs convert ideas into financial opportunities through innovations. India has been rising at a comparatively high rate in the last few years and is likely to be the leading financial system in the world by 2050. The liberalization of the economy since 1991 has cemented the way for a notable figure of people to become entrepreneurs. Entrepreneurship can be cultivated among the present youth and can be developed systematically with the help of Banks and financial institutions. Both government and various manufacturing endorsement and support institutions are making considerable efforts to facilitate the process of the emergence of new entrepreneurs for setting up enterprises in the small-scale sector. These efforts are concerned with making good-looking schemes for the availability of finance and various other assistance, including technical know-how and training.

There are a large number of financial institutions like 'The Industrial Finance Corporation of India (IFCI),' 'The Industrial Credit Investment Corporation of India (ICICI),' 'The Industrial Development Bank of India (IDBI),' 'Small Industries Development Bank of India (SIDBI),' 'Karnataka State Financial Corporation Ltd. (KSFC)' and various commercial banks provide financing assistance to entrepreneurs. Various other institutions provide support to entrepreneurs in starting their enterprises, such as National Small Industries Corporation Ltd. (NSIC), Small Industries Development Organization (SIDO), Small Industries Service Institutes (SISIs), Technical Consultancy Organizations (TCOs), Karnataka State Small Industries Development Corporation (KSSIDC) and many more.

### **Entrepreneur and Financing**

Finance is the crucial input of production, distribution, and development and is a prerequisite for accelerating the entrepreneurship development process. An entrepreneur requires capital to put the plan into action. Capital can be procured through various ways, such as investing with our savings, collecting money through friends and relatives, and availing loans from banks, Government schemes, and financial institutions. Entrepreneur has to decide which source to use based on their capital requirement and type of business.

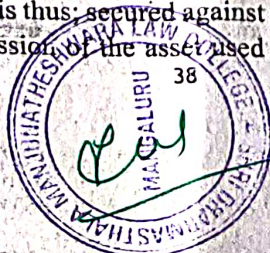
### **Role of Banks in Financing Entrepreneurs**

The banks play an essential role in the development and promotion of entrepreneurship. Entrepreneurs out there want to start their businesses but need more capital. Banks are one of the ways that entrepreneurs use to fund their businesses.

It is difficult for most entrepreneurs to raise funds through equity because they need sufficient financial knowledge. Moreover, with funds, businesses can grow.; hence loans are the primary source of funding for entrepreneurs.

### **Different Types of Loans Available at Banks are as follows:**

- **Secured loan:** a loan in which the borrower pledges some asset (e.g., a car or property) as collateral for the loan, which then becomes a secured debt owed to the creditor who gives the loan. The debt is thus secured against the collateral. If the borrower defaults, the creditor takes possession of the asset used as collateral and may sell it to regain





some or the entire amount initially loaned to the borrower. When a lender knows one well and is convinced that the business is sound and the loan would be repaid on time, the lender may be willing to provide an unsecured loan that does not require any collateral.

- **Term loan:** is usually repaid in regular payments over a set period. Term loans usually last between one and ten years but may sometimes last as long as 30 years. A term loan usually involves an unfixed interest rate that will add a balance to be repaid.
- **Mortgage:** a loan used either by purchasers of real property to raise funds to buy real estate or by existing property owners to raise funds for any purpose while putting a lien on the mortgaged property. The loan is "secured" on the borrower's property through a process known as mortgage origination. It means that a legal mechanism is in place which allows the lender to take possession and sell the secured property to pay off the loan if the borrower defaults on loan or otherwise fails to abide by its terms.
- **Inventory loans and equipment loans:** for purchasing and secured by equipment or inventory. It is a one-time loan offered to borrowers to cope with emergency cash requirements against the resale value of the inventory.
- **Personal loan:** is an amount of money one can borrow to use for a variety of purposes. It describes any situation in which an individual borrows money for personal needs, including making investments in a company. It does not require collateral or security and is offered with minimal documentation.
- **A guaranteed loan** is a loan that a third party guarantees or assumes the debt obligation for if the borrower defaults.
- **Commercial loan:** in which the bank offers its standard loan for small businesses. A commercial loan is a financial instrument that business owners can avail of to address any short-term capital needs. The sanctioned amount can increase the working capital, acquire new machinery, build new infrastructure, meet operational costs, and other such expenditures.

### Financial Institutions

Finance is made available to entrepreneurs by the financial institution set up by the government as a network of particular financial institutions with a reasonably significant capital base to provide financial assistance to all industries, including small-scale industries. In order to provide financial assistance to entrepreneurs, the government of India has set up several financial institutions besides commercial banks.

#### Some of the Financial Institutions are given below:

- **IFCI (Industrial Finance Corporation of India):** The purpose of setting up this was to provide medium and long-term credit to eligible industrial firms. It was the first development bank in the country, established in 1948 to provide financial assistance to medium and large industrial projects in the corporate and cooperative sectors of the country. It has actively promoted the industry to strengthen the base and deepen industrialization in its multifaceted form.

Assistance from IFCI single-handedly or jointly with other institutions is available for:

- a) Setting up new industrial projects





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- b) Expansion of existing units/Diversification into new lines of activity
  - c) Renovation/Rehabilitation/Modernisation of existing units
  - d) It provides needed guidance in project evaluation, identification, formulation, implementation, operation, and others.
  - e) It gives its helping hand concerning technical and administration
  - f) It undertakes research and survey for the sake of industrial development

- **ICICI (Industrial Credit and Investment Corporation of India Ltd.)**

ICICI was established in 1955 as a private institution to assist long-term funds for capital assets and project promotional services. The primary purpose of assistance is to provide long-term funds for capital assets like land, buildings, and machinery. It has set up a project promotion department to provide promotional services and assistance to individual projects on a selective basis.

**ICICI performs various functions.**

- a) Direct subscription to securities.
- b) Provide long-term loans in rupees.
- c) Provides loans in foreign currencies.
- d) Guaranteeing payments for credits.
- e) Providing credit facilities to indigenous manufacturers.
- f) Leasing of equipment.
- g) It conducts the techno-economic survey for backward areas.

- **IDBI (Industrial Development Bank of India):** IDBI was established in 1964 as an apex lending financial institution and reconstructed as the principal financial institution.

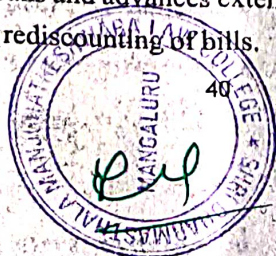
**IDBI provides the following assistance for the development of industries**

- a) Direct assistance to industrial concerns in the form of the underwriting of shares and debentures.
- b) Soft loans for modernization, renovation, and replacement of existing industry.
- c) Rediscount bills arising out of sales of indigenous machinery on deferred payment.
- d) Finances exports in the form of direct loans and guarantees to exporters.
- e) Assists other financial institutions by way of subscription to their shares and bonds.
- f) Engages in promotional activities to bring about industrial development.

- **SIDBI (Small Industries Development Bank of India):** SIDBI was set up as a subsidiary of IDBI by a Special Act 1989 to function as the principal financial institution for the promotion, development, and financing of industry in the small-scale sector and for coordinating the functions of institutions engaged in similar activities.

**Following is the assistance provided by the SIDBI.**

- a) Refinancing of loans and advances extended by primary lending institutions.
- b) Discounting and rediscounting of bills.





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- c) Extension of risk capital or soft loan assistance to industries.
  - d) Extending financial support to SSIDC and NSIC.
  - e) Technological upgradation and modernization services to the industries.
  - f) Promotes employment-oriented industries, especially in a semi-urban area.

- **KSFC: Karnataka State Financial Corporation** operates as a financial institution. The Company provides short-term business credit and sales financing assistance to small businesses. The corporation's objective is to promote industrial activity in Karnataka by providing financial assistance to small and medium-sized industries. The assistance is usually in term loans up to Rs. 10 crores, mainly to first-generation entrepreneurs.

### **Other Institutions Supporting Entrepreneurs**

The Institutional setup is the primary factor for the growth and success of any small-scale industry. The government has planned very well in this context to meet the requirements of the rapidly growing small-scale industrial sector. An entrepreneur gets many types of assistance from different institutions.

### **Some of the Institutions supporting entrepreneurs are as follows:**

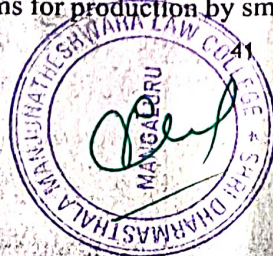
- **NSIC (National Small Industries Corporation Ltd.):** The National Small Industries Corporation (NSIC), set up in February 1955, is a central agency for promoting and assisting small-scale industries in the country. It has been providing institutional assistance to this vital sector of the economy. It has played a significant role in developing small-scale industry, entrepreneurial base, employment generation, rural and backward areas development, increased share of assistance to SC/ ST, weaker sections of the society, ex-servicemen, and women-entrepreneurs.

### **Functions of NSIC**

- a) Supply of indigenous and imported machines on a lease basis to existing units for expansion, diversification, and modernization
  - b) Marketing of small industries products within the country
  - c) Supply and distribution of indigenous and imported raw material
  - d) Technical training in several industry trends to create a technical culture in the young entrepreneurs
  - e) Procuring government orders for small-scale units
- **SIDO (Small Industries Development Organisation):** It is an apex body and nodal agency for formulating, coordinating, and monitoring the policies and programs for promoting and developing small-scale industries.

### **The main functions performed by the SIDO are:**

- a) To evolve a national policy for the development of small-scale industries,
- b) To coordinate the policies and programs of various State Governments,
- c) To coordinate the programs for the development of industrial estates
- d) To reserve items for production by small-scale industries,





- e) To collect data on consumer items imported and then encourage the setting of industrial units to produce these items by giving coordinated assistance.
- f) To provide consultancy and training services to strengthen the competitive ability of small-scale industries.

- **SISI (Small Industries Service Institutes):** The Small Industries Services Institutes (SISIs) are set up to provide consultancy and training to small entrepreneurs - both existing and prospective. The activities of SISIs are coordinated by the Industrial Management Training Division of the DCSSI's office. There are 28 SISIs and 30 branches set up in State capitals and other places all over the country.

**The main functions of SISIs include the following:**

- a) To serve as an interface between Central and State Governments.
- b) To render technical support services.
- c) To conduct Entrepreneurship Development Programmes.
- d) To initiate promotional programs.
- e) Help in the preparation of project profiles
- f) Workshop facilities.
- g) Training in various trades/activities.

- **TCO (Technical Consultancy Organizations):** TCOs set up in the early seventies/ eighties to provide a package of comprehensive consultancy services covering all stages in the project cycle under a single roof. TCOs also provide consultancy services to State Governments, state-level development financing institutions, and banks. The main thrust of TCOS operations is in the area of preparation of project reports and feasibility reports. Having gained experience over the years, TCOs have diversified into identifying potential entrepreneurs and their training, project implementation rehabilitation, management consultancy, and detailed design engineering.

**The significant activities of TCOs are:**

- a) Carrying out potential industrial surveys, identification of project ideas, project formulation
- b) Evaluation of projects referred to them.
- c) Preparation of project profiles and feasibility studies.
- d) Conduct area development and marketing surveys.
- e) Assisting entrepreneurs in their modernization and technical upgradation program.
- f) Conduct EDPs, entrepreneurship awareness camps, and training programs.
- g) Identify the potential entrepreneurs and provide them with technical management assistance
- h) Undertaking market research and surveys for specific products.
- i) Undertaking export consultancy for export-oriented projects based on modern technology





- **KSSIDC (Karnataka State Small Industries Development Corporation):** The principal objective is to promote and develop Small Scale Industries in the state. Construction and infrastructure utilization, especially in backward areas, procurement and marketing of raw materials, technical support, and assistance are the means to 'reach the goals. An industrially prosperous Karnataka is their vision.

Karnataka State Small Industries Development Corporation (KSSIDC) is an agency promoted by the Government of Karnataka to promote and develop small-scale industries in the state. KSSIDC industrial estate has other infrastructures like roads, drainage, street lighting, water supply, and typical service buildings like banks, post office, and canteen. It has provided ready-built sheds and small plots and made them available for allotment to entrepreneurs; KSSIDC has also opened raw material depots in all the state districts. Entrepreneurs shall contact the agency for allotment of the shed and raw materials; KSSIDC has regional offices at Bangalore, Mysore, Gulbarga, and branch offices at Hubli, Belgaum, Shimoga, Tumkur, Mangalore.

**Government Schemes in India**

The Indian government has developed various schemes that benefit Entrepreneurs and support them in establishing their enterprises. These schemes motivate prospective entrepreneurs to start up their enterprises.

**The different government schemes are as follows:**

- a) MSME business loans in 59 minutes is a government initiative targeted towards providing immediate capital to companies belonging to the Micro, Small, and Medium Enterprises. The Indian government has introduced the MSME loan in the 59 minutes scheme to enhance the process through which the MSMEs get credit. The MSME loans in 59 minutes scheme allow MSME business owners to avail of an instant business loan from a list of Public Sector Banks (PSBs). The 59 minutes loan ensures that MSME business owners get in-principle approval for a business loan of up to Rs 5 crore in 59 minutes from various public sector banks.
- b) Pradhan Mantri MUDRA Yojana (PMMY) is a scheme launched by the Hon'ble Prime Minister on April 8, 2015, for providing loans of up to 10 lakhs to non-corporate, non-farm small/micro enterprises. These loans are classified as MUDRA loans under PMMY. Commercial Banks, RRBs, Small Finance Banks, MFIs, and NBFCs give these loans.

**Under the aegis of Pradhan Mantri MUDRA Yojana, MUDRA has already created the following products/schemes.**

- 1. Shishu: covering loans upto 50,000/-
- 2. Kishor: covering loans above 50,000/- and upto five lakhs
- 3. Tarun: covering loans above five lakhs and upto ten lakhs
- c) The CGMSE, launched in 2000, is a monetary support scheme for micro and small enterprises. It offers collateral-free credit for new and existing business units that satisfy its eligibility criteria. The scheme provides working capital loans up to 10 lakhs without any collateral.





- d) Stand-Up India Scheme is for financing SC/ ST and Women entrepreneurs. It facilitates bank loans between Rs 10 lakh and Rs 1 Crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services, or the trading sector. In non-individual enterprises, at least 51% of the shareholding and controlling stake should be held by either an SC/ST or a woman entrepreneur.
- e) The bank credit facilitation scheme is to meet the credit requirements of MSME units; NSIC has entered into a Memorandum of Understanding with various Nationalized and Private Sector Banks. Through syndication with banks, NSIC facilitates credit support to MSMEs (fund-based or non-fund-based limits) from these banks. Any MSME Unit can directly approach the nearest branch office and submit their request application for loan requirements from any of these banks under the tie-up agreement.
- f) SIDBI Make in India Loan for Enterprises (SMILE) scheme was also launched by the Government of India. The scheme intends to take forward the Make in India campaign of the Government of India and help MSMEs participate. The focus will be on identified twenty-five sectors under the 'Make in India' program' with an emphasis on financing smaller enterprises within the MSME sector. The SIDBI Make in India Loan for Enterprises (SMILE) scheme aims to support new & existing MSMEs in purchasing growth opportunities.

**Objectives**

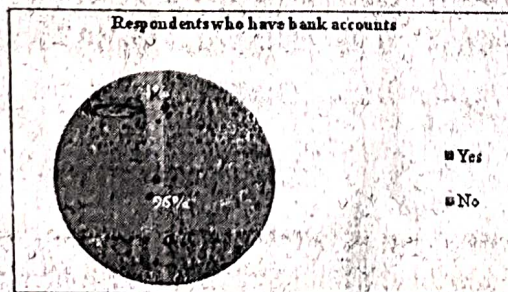
- To study the awareness entrepreneurs have about the government schemes and loans provided by the bank.
- To study the modes of acquiring initial investment.
- To study the flow of working capital.

**Methodology**

The study was conducted in Mangaluru, Karnataka data was collected from 50 participants through a questionnaire and personal interviews. The respondents include only residents of Mangaluru city. Available secondary data was extensively used for the study.

**Data Analysis and Interpretation**

1) The following chart shows respondents who have bank accounts.

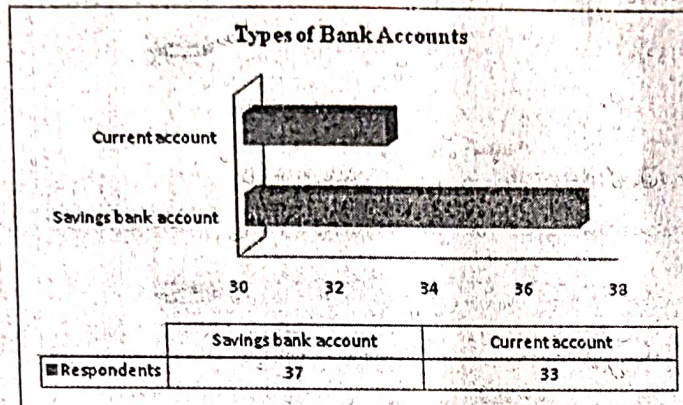


*Interpretation: Out of 50 respondents, 96% have bank accounts, whereas 4% do not.*



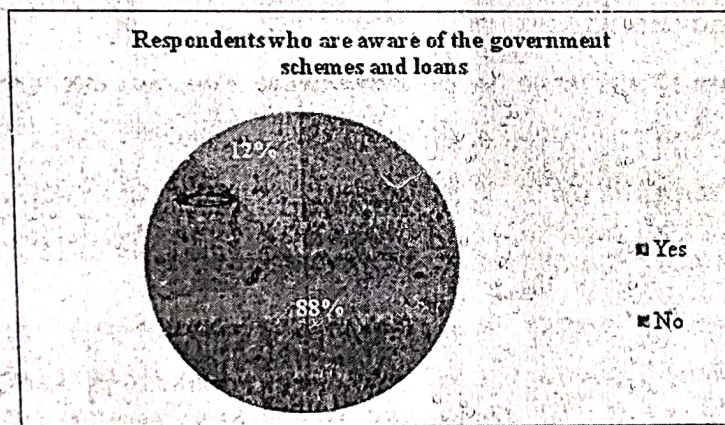


2) Banks offer different types of accounts to their customers. The following chart shows the type of bank account respondents has.



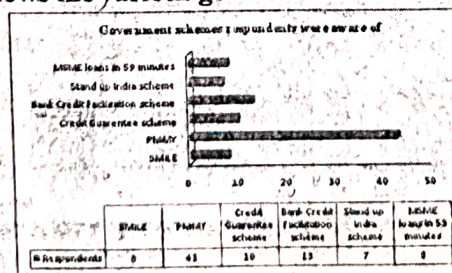
Interpretation: Out of 96% of respondents, who have bank accounts, 37 have savings bank accounts, and 33 have current accounts.

3) The government offers various schemes and loans to entrepreneurs. The following chart shows the awareness entrepreneurs have.



Interpretation: Out of 50 respondents, 88% know the government schemes and loans offered at banks, whereas 12% are unaware.

4) The following chart shows the various government schemes respondents are aware of

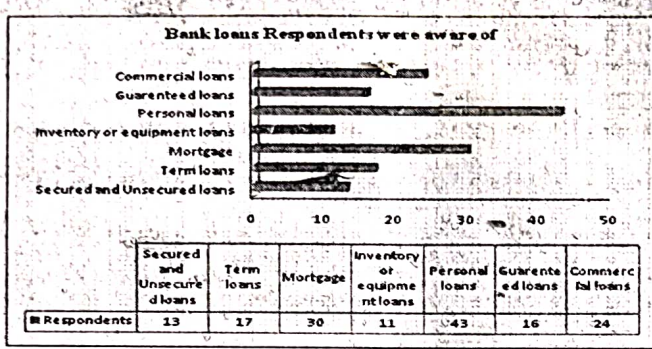


Interpretation: Out of 88% of respondents who are aware of the schemes and loans, 43 of them are aware of Pradhan Mantri Mudra Yojana, 13 are aware of Bank Credit Facilitation Scheme, 10 of them Credit Guarantee Scheme, 8 of them MSME loans in 59 minutes, another 8 of them SIDBI Make in India for Enterprises and 7 of them are aware of Stand Up India Scheme.

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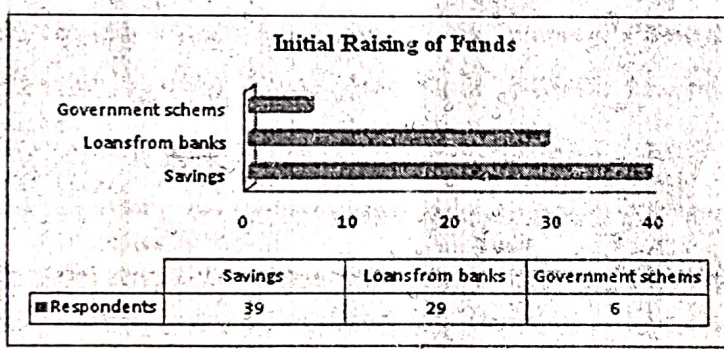


5) The following chart shows the various bank loans respondents are aware of.



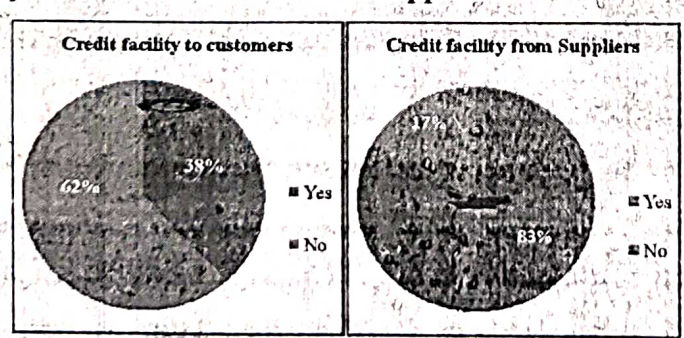
*Interpretation: Out of 88% of respondents who are aware of the loans offered by the banks to small entrepreneurs, 43 are aware of Personal loans, 30 are aware of Mortgage, 24 Commercial loans, 17 Term loans, 16 Guaranteed loans, 13 Secured and Unsecured loans and 11 of them are aware of Inventory and Equipment loans.*

6) The following chart shows how the respondents raise the initial funds.

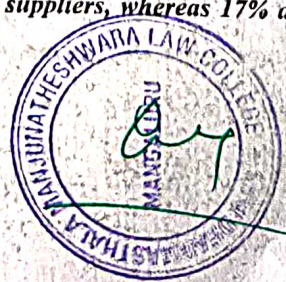


*Interpretation: Out of 50 respondents, 39 of them have raised their initial funds through savings, 29 through bank loans, and only 6 of them through Government schemes.*

7) The following charts show whether the respondents give customers credit facilities and whether they receive the same from their suppliers.

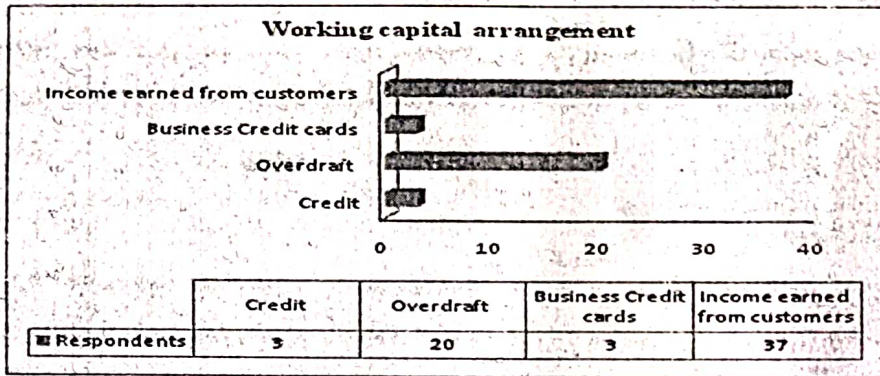


*Interpretation: Out of 50 respondents, 38% give credit facilities to their customers, whereas 62% do not. Furthermore, 83% of them get credit facilities from their suppliers, whereas 17% do not get these facilities.*





8) The following chart shows how the respondents raise their working capital.



*Interpretation: Out of 50 respondents, 37 of them raise their working capital from the income earned from the customers, 20 use overdraft facilities, 3 of them get trade credit, and another 3 of them make use of business credit cards.*

**Findings**

- 1) From the study, it is inferred that though most respondents were aware of the government schemes and bank loans, most did not prefer using them as the respondents felt that the information provided was not conclusive. Some of them felt that the procedure was time-consuming. Some of them had pre-determined thoughts that it would not be applicable and beneficial to them. Some of the respondents avoided opting for these schemes as they were unsure whether they would be able to repay the loans due to the fluctuating business and high competition in the market.
- 2) The respondents raised initial funds primarily by investing their savings into the business or applying for bank loans. Only some of them utilized government schemes to start up their business.
- 3) The respondents preferred using the income earned from the customers and overdraft facilities as most of them had current accounts to arrange their working capital.
- 4) The respondents were primarily aware of government schemes such as Pradhan Mantri Mudra Yojana. Among the various bank loans available, they were aware of personal loans, mortgages, and commercial loans. The respondents needed a clearer idea about the different institutions that support entrepreneurs in setting up their enterprises. They also needed to have in-depth knowledge about the various schemes that the banks offer.

**Conclusion**

Several agencies and institutions share the task of entrepreneurship development and financing, among which banks are the most important ones. Entrepreneurship development is the need of the hour; therefore, authorities and banks should actively involve themselves in this task. Banks benefit from their involvement in the development and financing of SMEs by increasing their client base and thus diversifying into new areas of business, which will eventually reflect positively on the banks' portfolios. It adds to the banks' positive outlook, as they play a role in developing the community and the economy. Since entrepreneurs need to gain more knowledge about the various schemes offered by banks, they should arrange for a team to deal with the





customers, assist them with the government schemes and loans provided, and encourage them to optimum utilization of the schemes offered.



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