



A STUDY ON GAP IN FINANCING FOR PROMOTION OF RURAL ENTREPRENEURSHIP WITH SPECIAL REFERENCE TO SONITPUR DISTRICT OF ASSAM

Sushmita Sharma

Research Scholar, Dept. of Commerce, Assam University, Diphu Campus, Karbi Anglong

Ratan Borman

Professor, Dept. of Commerce, Assam University, Diphu Campus, Karbi Anglong,

ABSTRACT

Rural entrepreneurship is a key to economic development in many countries. It can emerge as an effective way of rural development. However, in an economically backward region provision of adequate supply of finance is considered as an important factor for promotion of rural entrepreneurship. The present study was conducted to examine the demand and supply of finance to rural entrepreneurs and also the gap in financing therein for promotion of rural entrepreneurship with reference to the scheduled commercial banks operating in Sonitpur district of Assam. The findings reveal that there exists gap in finance towards entrepreneurship development in Sonitpur district of Assam, particularly in agriculture and allied activities though it employs a large number of people and has potential to transform the India's economic scenario. Such inadequate supply of finance, particularly by the scheduled commercial banks has been causing a setback in promotion of rural entrepreneurship in the studied area.

KEYWORDS : Rural entrepreneurship, rural development, finance.

Introduction

India is a developing country with ample scope for development; but the development would be possible when the available resources—financial, human and natural resources are put to the best possible use. It is generally accepted that the developing and underdeveloped countries lack in resources, mostly in respect of financial and capital resources. Financial intermediaries particularly banks have a very important role in raising the financial resources because of their capacity to tap resources from a wide spectrum of people and diversified nature of their operation.¹ It is widely accepted that credit is a phenomenon of economic development and the banking system along with entrepreneurship is a vital agent which plays a crucial role in this process.²

In India about 70 percent of the population lives in rural areas and they are mainly engaged in agriculture and allied activities which are characterized by low productivity resulting in rural poverty. Rural industrialization through the development of entrepreneurs may be the answer to poverty, unemployment and backwardness of Indian economy.³

Statement of the Problem

Access to capital is not only constraint for enterprises to grow, but also considered as an important problem in developing rural entrepreneurship. In India, Government, both Central and State, banking and financial institutions have taken several steps for the efficient growth and development of rural entrepreneurs. It has been observed from the study of the Annual Reports of Lead Bank that banks always fail to achieve its target for financing entrepreneurship.

It has been found that irrespective of good attempts undertaken by the Govt. of India and the Scheduled Banks, the status of bank finance to rural entrepreneurs is not satisfactory. Therefore, there is an urgent need to unearth the reasons behind such state of affairs.

Review of Literature

A brief review of related literatures have shown that- Naidu and Padmavathi (1987) in their studies on the factors responsible for sickness in Small Scale Industrial sector in Chittoor District of Andhra Pradesh in 1987 identified that about 36.4 percent of the units fell sick because of financial constraints.⁴

Saikia, S.K. (2001) in his study "Small Scale Industries in Assam" found that Small Scale Industries in Guwahati were facing a number of problems while managing their units including finance and financial problem was ranked as number one problem.⁵

Khanka, S. S. (2004) in "Entrepreneurial Development" has stated that capital is one of the most important prerequisites to establish an enterprise. According to him, availability of capital facilitates the entrepreneur to bring together the land of one, machine of another and raw material of yet another to combine them to produce goods. Capital, therefore, regarded as lubricant in the process of production. Accumulated experience suggests that with an increased capital investment, capital output ratio also tends to increase. This suggests that as capital increases, entrepreneurship also increases. France and Russia exemplify how the lack of capital for industrial pursuit impeded entrepreneurship and adequate supply of capital promoted it.⁶

In Morocco, microfinance has a role in facilitating growth of the entrepreneurs. A research was conducted by Chantal and Annette (2009) on the microfinance institutions on their role in providing funds to the entrepreneurs. The rapid growth in clients and assets were the key factors for these institutions to be considered successful in lending the capital to the entrepreneurs that enable them to start-up business.⁷

Neog J. (2009) in his thesis entitled "Role of Scheduled and Other Banks in Entrepreneurship Development in Karbi Anglong District of Assam" made a detailed study on the financing pattern of the scheduled and other banks in entrepreneurship development. The study was done by selecting 22 branches of scheduled and other banks out of 54 branches. The study showed that availability of finance is still a problem for the entrepreneurs. He also analyzed the problems faced by banks in financing entrepreneurs and also the problems faced by entrepreneurs.⁸

Fletschner D. and Kenny L. (2014) conducted a study on Rural women's access to financial services: Credit, Savings and Insurance. The study reveals that designing appropriate financial products for women to be able to save, borrow and insure is essential to strengthen women's role as producers and widen the economic opportunities available to them. Context specific legal rights, social norms, family responsibilities, and women's access to and control over other resources play an important role in shaping rural women's needs for capital and their ability to obtain it.⁹

Objective

Considering the observations and findings of previous researchers, the present study is an attempt to examine the demand for and supply of finance to rural entrepreneurs and also to establish the gap in financing for promotion of rural entrepreneurship with reference to the scheduled commercial banks operating in Sonitpur district of Assam.

Methodology

The study was based on both primary and secondary data and carried out in Sonitpur district of Assam. There are 61 rural branches of scheduled commercial banks in Sonitpur district spread over the 14 blocks. The primary data were gathered through field investigation and personal interaction with banks officials to elicit required information. The data were collected for a period of seven years from 2009-10 to 2015-16 for the purpose of study. The data on demand for finance were collected from Annual Credit Plan for the period 2009-10 to 2015-16 and supply of finance were collected from respective bank branches for the purpose of study. The data so collected was analysed and organized in tabular form wherever necessary and interpreted with the help of percentage to draw meaningful conclusions. The primary data has been supplemented by secondary data which were collected from bank records, research papers, journals, government bulletin, internet etc.

Findings and Analysis

a) Gap in financing towards rural entrepreneurship engaged in Agriculture and Allied Activities

Agriculture is the main occupation for a large portion of the total population. The loans provided to this sector includes all credit extended for crop production, farm mechanization such as tractor, power tiller, farm equipments, plantation & horticulture, forestry & waste development, animal husbandry (which includes dairy, poultry, sheep, goat & piggery development), fisheries development, agro processing industries etc. An attempt has been made to examine the financing to rural entrepreneurs engaged in agriculture and allied activities to ascertain the gap in finance and Table 1 exhibits this gap in financing.

Table 1: Table showing Demand for and Supply of finance to Rural Entrepreneurs engaged in Agriculture & Allied Activities (Rs. Lakh)

Year	Demand for Finance		Supply of Finance		Gap in Finance %
	Amount	Percentage	Amount	Percentage	
2009-10	4653.75	100	4192.32	90.08	9.92
2010-11	5582.60	100	4687.62	83.97	16.03
2011-12	8445.50	100	5422.74	64.21	35.79
2012-13	15188.06	100	7790.32	51.29	48.71
2013-14	19764.66	100	8888.39	44.97	55.03
2014-15	23003.43	100	13116.04	57.02	42.98
2015-16	25873.72	100	9340.78	36.10	63.9

Source: Compiled from Potential Linked Credit Plan 2012-13 to 2017-18, Sonitpur District, Assam

From the above table it is seen that over the study periods there always exists gap in finances to rural entrepreneurs engaged in agriculture & allied activities. Banks fail to fulfil the demand for finances. The table reveals that the gap in financing had shown an increasing trend over the periods, which reached to 63.9% in 2015-16 from 9.92% in 2009-10. This highly increasing gap in finance is quite a matter of concern. As agriculture is still the main occupation for a large portion of population, this insufficiency of finance might act as hindrance towards promotion of such entrepreneurship.

b) Gap in financing towards rural entrepreneurship engaged in Manufacturing Activities:

Manufacturing sector is the hub of various groups ranging from modern sophisticated units to traditional activities carried on in cottage and household units. These are primarily small scale units including tiny, village and cottage industries alternatively called micro enterprises. They could be a major strategy to tackle the unemployment and underemployment.¹¹ The manufacturing sector also faces the shortage of adequate funds for entrepreneurial activities. Table 2 shows the demand for finance, supply of finance and the gap in finances to rural entrepreneurs engaged in manufacturing sector.

Table 2: Table showing Demand for and Supply of finance to Rural Entrepreneurs engaged in Manufacturing Sector (Rs. Lakh)

Year	Demand for Finance		Supply of Finance		Gap in Finance %
	Amount	Percentage	Amount	Percentage	
2009-10	2102.30	100	1487.11	70.74	29.26
2010-11	2485.00	100	2058.55	82.84	17.16
2011-12	3567.25	100	4650.18	130.36	-30.36
2012-13	4593.35	100	5268.75	114.70	-14.70
2013-14	20155.05	100	7279.12	36.12	63.88
2014-15	19020.60	100	8162.64	42.91	57.09
2015-16	19971.63	100	5457.87	27.33	72.67

Source: Compiled from Potential Linked Credit Plan 2012-13 to 2017-18, Sonitpur District, Assam

It may be inferred from the above table that there also exist a gap between demand for and supply of finance to rural entrepreneurs engaged in manufacturing sector. The gap has been observed throughout the study periods, except for the years for 2011-12 and 2012-13, where excess supply over demand were noticed. But this oversupply of finance, however, didn't continue for more. Rather, the gap reached to the extent of 72.67% of demand in the year 2015-16. This again creates a worrisome situation for rural entrepreneurs engaged in manufacturing sector.

c) Gap in financing towards rural entrepreneurship engaged in Service Activities:

The service sector includes Micro-Finance, Transport Operators, Retail Trade, Small Business etc. While trade and services can play vital role in productivity, transport operators can provide market linkage and generate employment. Micro-Finance has emerged as a good mechanism for credit delivery to rural poor.¹² Insufficient credit is a major hindrance for taking up these activities by rural entrepreneurs. The rural entrepreneurs are deprived of meeting their need for financial requirement. Table 3 shows the analysis of demand for and supply of credit to service sector and thus the gap in finance.

Table 3: Table showing Demand for and Supply of finance to Rural Entrepreneurs engaged in Service Sector (Rs. Lakh)

Year	Demand for Finance		Supply of Finance		Gap in Finance %
	Amount	Percentage	Amount	Percentage	
2009-10	5431.31	100	5004.45	92.14	7.86
2010-11	6019.65	100	4867.89	80.87	19.13
2011-12	8487.25	100	2358.28	27.79	72.21
2012-13	10972.77	100	4337.16	39.53	60.47
2013-14	12044.43	100	3306.82	27.46	72.54
2014-15	12780.00	100	6833.66	53.47	46.53
2015-16	14058.00	100	5100.08	36.28	63.72

Source: Compiled from Potential Linked Credit Plan 2012-13 to 2017-18, Sonitpur District, Assam

- Maheshwari, S.N.: Banking Law and Practice, Kalyani Publishers, New Delhi, 2004, p.11.
- Ibid., p.11.
- Sandeep Saxena, 'Problems Faced By Rural Entrepreneurs and Remedies to Solve It', IOSR Journal of Business and Management (IOSRJBM) ISSN: 2278-487X Volume 3, Issue 1 (July-Aug. 2012), PP 23-29 www.iosrjournals.org, p. 24
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 10. Potential Linked Credit Plan 2012-13, Sonitpur District, Assam
 11. Potential Linked Credit Plan 2012-13, Sonitpur District, Assam
 12. Potential Linked Credit Plan 2012-13, Sonitpur District, Assam

In service sector also, the provision for supply of finance to rural entrepreneurs were found to be following similar pattern with other sectors of rural entrepreneurship. Even, the gap reached to the level of as high as 72.54% in 2013-14. Though, the service sector has been showing growth in the rest of the country due to pro-entrepreneurial policy adopted by the Government recently; the same has not been reflected in the Sonitpur district of Assam, particularly in the rural areas. As evident from various studies as well as role of finance in growth of any entrepreneurial sector; the inadequacy of provision of finance might be a critical factor for such state of affairs.

d) Gap in financing towards rural entrepreneurship engaged in Various Sector of Activities:

Further, an attempt was also made to examine the gap in financing towards rural entrepreneurship engaged in various sector of activities over the periods of study. The table-4 exhibits the proportionate gap in such financing compared to various sectors to total gap and percentage of financing gap to total demands for the periods under study.

Table 4: Table showing Proportionate Gap in financing to Rural Entrepreneurs engaged in Various Sector of Activities

Year	Agriculture & Allied Activities [%age of total Financing Gap]	Manufacturing Sector [%age of total Financing Gap]	Service Activities [%age of total Financing Gap]	%age of Financing Gap to total demand for all sectors
2009-10	30.69	40.92	28.39	12.34
2010-11	36.19	17.24	46.57	17.56
2011-12	37.46	-13.42	75.96	39.36
2012-13	55.38	-5.06	49.68	43.43
2013-14	33.48	39.63	26.89	62.52
2014-15	37.04	40.68	22.28	48.70
2015-16	41.33	36.28	22.39	66.78
Average	38.80	22.32	38.88	41.53

Source: Compiled from Potential Linked Credit Plan 2012-13 to 2017-18, Sonitpur District, Assam

From the above, it appears that a substantial financing gap exists in all entrepreneurial sectors throughout the periods under study, except in manufacturing sector for two years, where excess supply were noticed that of the demands. Particular mention may be made for agricultural and allied activities which constitutes a major activity in rural economy having capabilities to employ a large number of people and has potential to transform the India's economic scenario. The same is also the case in respect of service sector which has potentiality to generate sizeable number of employment opportunity as evident from recent development in service sector. Thus it may be inferred that due to inadequate supply of finance, particularly by the scheduled commercial banks has been causing a setback in promotion of rural entrepreneurship in the studied area.

Further, during interaction with bank officials working in the studied areas and few entrepreneurs who availed credit from banks, it was

opined that a number of factors are attributable for arising gap in financing rural entrepreneurship. Factors like, insufficient applications from entrepreneurs, problem in the feasibility of the project proposal, difficulty in recovering overdue, insufficient and improper documents, low credit absorption capacity in entrepreneurial activities etc. opined by the banks officials. Lack of awareness of various supportive schemes of finance, indifferent attitude of bank officials towards small entrepreneurs, cumbersome procedures, inordinate delay in sanction and disbursement of credit etc. were opined by the entrepreneurs. Thus it may be concluded that there seems to be lack of understanding and improper communication amongst the stakeholders in order to reap the benefit of various financial supportive schemes available for promotion of rural entrepreneurship in the area under study.

Conclusions:

Credit is one of the essential ingredients for increasing growth and development of the rural sector including rural entrepreneurship (Misra, 2005). Without the supply of credit of the right type, in the right time, in right quantity at low cost rural entrepreneurship is bound to suffer and sometime falling prey of the moneylenders in spite of high rate of interest. Unless the rural credit system is reoriented to provide the facility with the disbursement of loan quickly and without harassment, they will continue to go to the moneylenders. Even though, there is a vast change in the credit policy of nationalization of banks, the benefits of credit availability to rural entrepreneurs is still a matter of concern (Banerjee, 2005).

However, entrepreneurship plays a vital role in the growth of our economy. It acts as a catalyst in fostering the initiative to undertake economic activities for the production and distribution of wealth. In rural areas larger amount of potential remain untapped due to lack of supportive means and management. If rural entrepreneurs are properly oriented and adequately supported including finance; the informal sector will develop, and this, in turn, will reduce the migration of rural people to urban areas in search of livelihood.

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