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FINANCING ENTREPRENEURSHIP IN INDIA: A CRITICAL ANALYSIS OF GOVERNMENT-LED FINANCIAL INTERVENTIONS

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ABSTRACT

Entrepreneurship plays a crucial role in driving economic development, innovation, and job creation, with emerging countries like India being no exception. Nevertheless, despite the relatively successful development of the start-up and MSME sector, finance still emerges as a crucial macro-structural factor that has been impeding entrepreneurs, especially in the early stages of starting up. Imperfections in the market, including information inefficiency, lack of collaterals, and risk aversion of financial institutions, have resulted in the limited availability of formal capital. To address this, the Indian government has developed several policies aimed at promoting entrepreneurship and ensuring that finance becomes more accessible for aspirational entrepreneurs. The purpose of this paper is to critically assess the major initiatives undertaken by the Indian government for the provision of entrepreneurial finance through initiatives like the Startup India initiative, Pradhan Mantri Mudra Yojana, Stand Up India Scheme, Credit Guarantee Scheme for Start-ups, and the Fund of Funds for Start-ups. The paper assesses, based on the imperative application of the initiative, whether this factor alleviates funding gaps, supports inclusive entrepreneurship, and enables the development of the start-up ecosystem. The paper will also highlight major challenges in the application process, along with major policy guidelines. The paper will also help in filling the literature with an integral, comprehensive policy approach in terms of the provision of entrepreneurial finance in India.

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1 Introduction:

Entrepreneurship acts as an important factor in developing economic growth, innovation, and employment opportunities, especially within emerging countries like India. Even with the development of the startup and MSME ecosystem, lack of funding has long been considered one of the topmost structural issues faced by entrepreneurs, especially in the early stages of formation. Market inefficiencies in terms of information availability, lack of collator, and risk aversion in financial institutions have resulted in the limitation of formal funding. It has been noticed that keeping in mind these limitations, the Indian government has made certain efforts through certain funding policies aimed at developing entrepreneurship and improving funding. The paper carries out a critical analysis of the topmost governmental projects for funding an entrepreneur under initiatives like the Startup India initiative, Pradhan Mantri, Stand Up India Scheme, Credit Guarantee Scheme for startups, and Fund of Funds for startups. The paper estimates the development impacts on addressing funding resources, promoting inclusive entrepreneurship, and developing the startup ecosystem using secondary data compiled from governmental policies. The paper outlines certain implementation issues and carries out certain recommendations directed at improving institutional development. The paper makes way for development within the prevalent literature of the situation through an interdisciplinary analysis on funding for entrepreneurs in India.

2. Review of Literature

The literature on entrepreneurial finance consistently emphasizes access to capital as a critical determinant of enterprise creation, survival, and growth. Classical economic theory, particularly Schumpeter's concept of entrepreneurship, identifies innovation as the driving force of economic development, wherein financial intermediation enables entrepreneurs to convert novel ideas into productive economic activity (Schumpeter, 1934). Subsequent theoretical developments highlight that financial market imperfections disproportionately affect new and small firms due to information asymmetry, lack of collateral, and uncertainty regarding future cash flows (Stiglitz & Weiss, 1981).

Empirical studies across developing economies demonstrate that startups and micro, small, and medium enterprises (MSMEs) face persistent financing constraints, which limit investment capacity and impede growth potential (Beck & Demirgüç-Kunt, 2006). Research on credit markets indicates that adverse selection and moral hazard often lead to credit rationing, particularly in bank-dominated financial systems that exhibit conservative lending behavior toward entrepreneurial ventures (Ghosh, Mookherjee, & Ray, 2000).

In the Indian context, several studies reveal that entrepreneurs rely heavily on informal sources of finance such as personal savings, family networks, and moneylenders due to limited access to institutional credit (Banerjee & Duflo, 2011). Empirical evidence suggests that collateral-based lending practices, complex documentation requirements, and limited credit history act as major barriers to formal finance for startups and MSMEs (Reserve Bank of India [RBI], 2023). These constraints are more pronounced in rural and semi-urban regions, resulting in uneven entrepreneurial development.

To address these financing gaps, the Government of India has implemented various policy interventions, including credit guarantee schemes, subsidized lending programs, and public venture capital initiatives. Studies evaluating such interventions argue that government-backed credit guarantees and targeted financing schemes can reduce lender risk and improve credit flow to underserved entrepreneurial segments (Beck, Klapper, & Mendoza, 2010). Initiatives such as the Pradhan Mantri Mudra Yojana and Startup India have been widely recognized for promoting financial inclusion and supporting first-generation entrepreneurs (Government of India, 2016).

However, existing literature also highlights significant challenges related to the implementation of government financing schemes. Scholars point to limited awareness among beneficiaries, institutional inefficiencies, delays in loan disbursement, and uneven regional outreach as factors constraining policy effectiveness (OECD, 2017; RBI, 2023). Moreover, much of the existing research evaluates individual schemes in isolation, offering limited insights into their cumulative impact on the entrepreneurial ecosystem.

Against this backdrop, the present study contributes to the literature by adopting an integrated, policy-oriented analytical framework to examine government-led financial interventions for entrepreneurship in India. By synthesizing theoretical perspectives on market failure with empirical policy evidence, the study seeks to provide a comprehensive assessment of the role of public financing mechanisms in alleviating structural financing constraints faced by entrepreneurs.

Objectives of the Study

The objectives of the present study are:

1. To examine the significance of financing in entrepreneurial development.
2. To analyze major government schemes supporting entrepreneurial finance in India.

3. To assess the impact of these schemes on startups and MSMEs.
4. To identify challenges in the implementation of government financing initiatives.
5. To suggest policy measures for improving entrepreneurial financing mechanisms.

Research Methodology

The study is based on **secondary data** collected from government reports, policy documents, Reserve Bank of India publications, economic surveys, and peer-reviewed academic journals. A **descriptive and analytical research design** has been adopted to examine the structure, objectives, and outcomes of selected government schemes. The methodology is appropriate for policy-oriented and conceptual research studies.

Government-Led Financial Schemes in India

Startup India Initiative

Launched in 2016, the Startup India Initiative aims to foster innovation-driven entrepreneurship through financial support, regulatory reforms, and ecosystem development. The initiative provides tax incentives, simplified compliance procedures, incubation support, and access to government-backed funding mechanisms, thereby addressing both financial and institutional constraints.

Pradhan Mantri Mudra Yojana (PMMY)

The Pradhan Mantri Mudra Yojana facilitates collateral-free loans to micro and small enterprises under the Shishu, Kishor, and Tarun categories. The scheme has played a significant role in promoting self-employment and financial inclusion, particularly in rural and semi-urban areas.

Stand-Up India Scheme

The Stand-Up India Scheme focuses on promoting entrepreneurship among women and individuals from Scheduled Castes and Scheduled Tribes. By supporting greenfield enterprises through institutional credit, the scheme aims to reduce socio-economic disparities and encourage inclusive growth.

Credit Guarantee Scheme for Startups (CGSS)

The Credit Guarantee Scheme for Startups provides government-backed guarantees to financial institutions, thereby reducing lending risk. This intervention encourages banks and non-banking financial companies to extend credit to startups lacking sufficient collateral.

Fund of Funds for Startups (FFS)

The Fund of Funds for Startups operates through indirect investments in SEBI-registered Alternative Investment Funds. This approach leverages private sector expertise while expanding the availability of equity capital for startups, contributing to the growth of venture capital activity in India.

Prime Minister's Employment Generation Programme (PMEGP) and Chief Minister Employment Generation Programme (CMEGP)

The Prime Minister's Employment Generation Programme (PMEGP) stands amongst the most prominent credit-linked subsidies being executed by the Government of India for supporting entrepreneurs aiming at attaining maximum self-employment through micro enterprising. This particular scheme initiated in 2008 through the Ministry of Micro, Small, and Medium Enterprises has been designed to create sustainable job opportunities both in rural and urban sectors through effective access to institutional finance for first-generation entrepreneurs (Ministry of MSME, 2023). This particular scheme has been developed through a combination of both credits provided from banks and support through a government subsidy.

Under the PMEGP, the beneficiaries are provided margin money subsidy, which varies between 15 percent and 35 percent of the project cost, depending on the type of beneficiary and geographical location of the enterprise. It is bound to bank loans, and this has made credit more affordable to the entrepreneurs with less exposure to risks. Studies indicate that the impact of the PMEGP scheme has been significant in encouraging the development of micro-enterprises, especially in manufacturing, and employment generation at the grassroots levels (Khadi and Village Industries Commission [KVIC], 2022).

At the state level, initiatives like the Chief Minister Employment Generation Program also attempt to fill the gaps created by PMEGP. CMEGP, a scheme initiated by the state governments, extends capital subsidies as well as interest subsidies to micro, small, and cottage enterprises, thus increasing the accessibility of credit for the entrepreneurs. It has been observed that the CMEGP has been responsible for de(con)centration's in the industrial structure by promoting the establishment of enterprises in the semi-urban and rural areas, where the availability of other sources of finance is inadequate (Government of Maharashtra, 2022).

Impact of Government-Led Financial Schemes in India

Government financing initiatives have demonstrably expanded access to formal credit for entrepreneurs and micro-enterprises in India. The **Pradhan Mantri Mudra Yojana (PMMY)**, one of the most extensive credit support programmes, completed a decade in 2025 with **more than 52 crore loan accounts sanctioned, totaling over ₹32.61 lakh crore (~US $379 billion)** since its inception in 2015, reflecting substantial penetration of institutional finance into underserved segments (DD News, 2025; IBEF, 2025). During the financial year **2024–25 alone, PMMY sanctioned nearly 4.8 crore loans worth ₹5.02 lakh crore (~US $58.4 billion)**, underscoring ongoing mobilization of capital toward micro and small business activity (IBEF, 2025; DD News, 2025). The scheme has also contributed to scaled credit flow to MSMEs more broadly; for instance, lending to MSMEs grew significantly over recent years due in part to enhanced credit access promoted by Mudra interventions (DD News, 2025). Additionally, women constitute approximately **68 % of PMMY beneficiaries**, indicating the programme's role in advancing gender inclusion in entrepreneurial finance (IBEF, 2025; Department of Financial Services, 2025).

Similarly, the **Stand-Up India Scheme**, launched to support women and socially disadvantaged entrepreneurs, has achieved considerable reach. As of October 2025, banks had sanctioned over **₹62,800 crore (~US $7.1 billion) to around 2.75 lakh beneficiaries**, including women and SC/ST entrepreneurs, demonstrating targeted credit support for marginalized groups (IBEF, 2025). These figures underscore the scheme's contribution to financial inclusion and equitable access to formal finance.

These statistical outcomes illustrate that government-led financial schemes have not only increased the volume of formal credit available to entrepreneurs but also facilitated greater participation by women and disadvantaged groups in business creation. However, variations in scheme uptake and credit disbursement across regions suggest the need for more nuanced, region-specific policy calibration to ensure uniform impact and address persistent disparities in entrepreneurial financing.

Conclusion :

Access to finance remains a fundamental constraint on the growth path of entrepreneurship development in emerging economies, especially in an environment beset with market imperfections and institutional asymmetries, as in India. This paper has critically assessed various government-inspired financial initiatives targeted at easing these structural constraints in order to develop the entrepreneurial ecosystem in the country. Major initiatives concerning Startup India, Pradhan Mantri Mudra Yojana, Stand-Up India, the Credit Guarantee Scheme for Startups, the Fund of Funds for Startups, and employment-oriented programmes such as PMEGP and CMEGP have been discussed in the study as part of an integrated evaluation of public financing mechanisms that support startups and MSMEs.

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