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The Role of Banks in the development of entrepreneurship in India

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Abstract

"Ideas are easy, Implementation is hard" – Guy Kawasaki

Recently Narendra Modi government has made a call for make in India and encourages young Indian talents to start their own new business or undertake ventures. After that many new entrepreneurs came forward to start business. At the same time the role of financial institution increased as they should meet the need of financial assistance to new startup company.

Entrepreneurship development is a concept that has to do with the formation, financing, growth and expansion of business or enterprises in an economy. This paper is focus on the role of banks in the development of entrepreneurship. It is aimed at to find out what are the problems encountered by entrepreneurs in acquiring loans for their business and also what are the problems are faced by banks in granting loans along with their contribution of entrepreneurship in India. This paper also made an attempt to know the present scenario of entrepreneurship in India. The study is purely based on secondary data which is collected through magazines, journals and various other sources of secondary data.

Key words: Entrepreneurs, Development, Banks, Problems

Introduction:

Entrepreneurship has been one of the most popular subjects that have aroused the interest of students and young entrepreneurship in large measure. The importance of the subjects is magnified manifold in today's economic climate. Entrepreneurship introduces a critical element of dynamism into an n economic system. The issue of getting finances for the small businesses and entrepreneurs is always been in debate and remain unresolved in many countries due to unavailability of qualified venture capitalists. The developing and emerging economies set the micro finance banks for this purpose, however, it is argued that the owner and entrepreneur faces many problems like collaterals, documentation, etc. Even banks have problems while granting loan and recovering loan. So this study is conducted to know the problems faced by both banks and borrowers i.e. entrepreneurs.

Objectives of the study:

1. To know the role of Banks in the development of entrepreneurship.
2. To know the problems faced by entrepreneurs in borrowing loans.
3. To know the problems faced by banks in the granting and recovery of loan.

Research Methodology:

This Research paper based on secondary data, and data collected from journals, Newspaper and Websites.

Scope of the study

This study was conducted on the basis of secondary data only therefore for better result we can go for research based study. So there is wide scope of research based study on this topic.

Limitations:

1. Only Secondary data are used.
2. Time limitation

ROLE OF BANKS IN ENTERPRISE DEVELOPMENT AND FINANCING

There is no gainsaying the fact that activities of banks reflect their unique role as the engine of growth in any economy. Banks especially commercial and specialized ever remain crucial to the growth and development of entrepreneurship, and their operations provide a solid backing capable of encouraging entrepreneurs in viable and profitable ventures. The role of banks goes beyond their traditional functions which if entrepreneurs avail themselves of could be of tremendous assistance in meeting their desired needs.

There are several ways banks could get involved in small and medium scale enterprise finance, ranging from the creation or participation in SMEs finance investment funds, to the creation of special unite for financing SMEs.

Along the lines of the main functions of banks mentioned above, we shall now examine their role in entrepreneurship development and enterprise financing. And; for the purpose of convenience and proper understanding, the roles can be categorized as follows:

1. Statutory Roles

These consist in the main the functions for which banks were created in the first place. Such roles are for example accepting of deposit and safekeeping of same, transfer of money, giving of loans and advances, etc. By accepting deposit of customers especially entrepreneur-customers, the banks will be providing security for customers' money and giving them opportunity to use their deposit to borrow more money from the banks to finance the running of their enterprises. By funds transfer, money is moved from one account to another and from one place to another. A good payment system which provides speedy fund transfers is vital for the efficient working of an economy. And with the development of information technology in banks, the speed of service delivery has improved while the cost of doing business has reduced tremendously. The services have enabled entrepreneurs to make transactions outside their immediate environment without necessarily having to carry money about.

2. Financing Roles

The primary reason that banks want deposits is to enable them grant loans and advances from which they earn interest income. Extension of credit to the economy for the financing of business enterprises is the core link that banks have to the real sector, acting like a catalyst and contributing to the growth of the economy of the country. By financing entrepreneurs' production, consumption and commercial activities, banks lubricate the process of economic growth with multiplier effect across all sectors of the economy, Oboh (2005). The various methods by which banks can lend money to entrepreneurs include overdraft, medium and long term loans, debt factoring, invoice discounting, asset finance including commercial mortgages and equity finance. Up until 1997, when compulsory sectorial allocation of credit was phased out as a policy instrument used by the monetary authorities in Nigeria, mainstream banks were made to meet specified targets in their lending to the productive sectors operated by entrepreneurs and businessmen. In 2001, the mainstream banks under the aegis of the Bankers' Committee also decided to commit 10% of their profit to equity investment in SMEs under the Small and Medium Industries Equity Investment Scheme (SMIEIS).

3. Business Investment Promotion Roles.

Because of the specialized and professional status of banks, they are in a position to play investment promotion roles to entrepreneurs. Such roles may include management of investment for customers, advice on sustainable lines of investment to follow by analyzing the pros and cons of each investment alternatives to the entrepreneur-customer.

4. Advisory, Guaranty and Consultancy Roles.

In addition to the normal lending and other service, banks now also engage in business advisory, guaranty and other consultancy services which help immensely in the promotion and financing of entrepreneurship activities in the country. It is well known fact that some enterprises/businesses fail simply because of mismanagement, faulty investment decisions, inefficient capital and foul planning etc.

5. Other areas

Other areas in which banks could offer advisory and consultancy services to the SMEs include methods of control systems or measures to be adopted by the enterprises with respect to defined lines of business or trend of challenges. Advice on methods of raising capital or reorganization of a company to bring about the desired level of efficiency. Advice on tax and tax related matters. Status enquiry services could be offered to effect credit purchases within the domestic market or overseas.

The banks could also perform a great role in entrepreneurship development by organizing, sponsoring and supporting entrepreneurship education and training programmes either directly or in conjunction with other organizations and stake holders.

Problems faced by Entrepreneurs while accessing finance:

Following are the problems faced by entrepreneurs while accessing loan from banks.

- Unavailability of proper financial records as a result of lack of financial management knowledge of lack of bookkeeping skills. It is surprising that some small business operators expect to obtain bank loans even if they do not have any business records.
- Lack of collateral security due to poverty. Commercial banks expect collateral security from the loan applicants (for risk), it is however unfortunate that the majority of small business operators lack assets that can be accepted by banks as collateral. To the majority of small business operators, this is as a result of poverty.
- Lack of connections as a result of inability to network. It was clear that small business operators who do not belong to any association had serious challenges in accessing finance and their businesses were being impacted negatively.
- Banks do not see the viability of business ventures. Banks were also accused of suspecting that all small businesses fail. In some cases, banks do not see the viability of some entrepreneurial ventures and as a result, they fail to access loans. To small business operators, banks do not just agree to fund any type of business for they treat small businesses with caution when it comes to granting credit.
- Misinterpretation of the business plan. This challenge can be as a result of the business owner or manager failing to interpret his/her own business plan, or the bank officials failing to do so the way the owner does. Some small business operators confessed that they couldn't interpret the business plans that were drawn by consultants on their behalf; this reduced their ability to negotiate for loans with banks.
- Banks do not agree to the amount applied for. Although some small business operators have a tendency of overstating the amount needed in their projects or businesses, banks also do not necessarily agree to the amount applied for.
- Other factor

- Don't know the procedure of accessing loan
- Lack of knowledge about finance available in Banks.
- Discouraged by high rate of interest.
- Poor response from banks.

Problems faced by Banks in granting and recovering loans:

There are various problems are faced by banks while granting and recovering loan, the major problems faced by banks are as follows,

- **Problems of loan default**

  Loans are classified as problem credits when they cannot be repaid. Problem loans and losses essentially reflect the difficult risk inherent in a borrower's ability and willingness to repay all obligations. The lending process by its nature is imperfect. Credit analysis may be incomplete or based on faulty data. Loan officers may ignore the true condition of borrowing with strong personal ties with the bank, and a borrower's ability to repay may simply change after a loan is granted. If management concentrates solely on minimizing losses, a bank will make virtually no loans; profit will shrink and the legitimate credit needs of customers will not be met. Lenders cannot completely eliminate risks, so more loan losses are expected. The objective is to manage losses well so that the bank can meet its risks and returns targets.

- **Lack of collateral**

  Collateral is a property or other asset that a borrower offers as a way for a lender to secure the loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recoup its losses. Since collateral offers some security to the lender should the borrower fail to pay back the loan, loans that are secured by collateral typically have lower interest rates than unsecured loans. A lender's claim to a borrower's collateral is called a lien. If banks granted loans without collateral security then it will face severe problems while recovering loans.

Suggestions:

Following from the above discussions, it is hereby recommended that government and financial institutions including the World Bank should develop a strong holistic approach to programmes and schemes created by them. All administrative bottlenecks and stringent conditions which make funds inaccessible to SMEs should be removed by the authorities and the banks.

Conclusions:

The task of entrepreneurship development and financing is being shared by several agencies and institutions among which banks are the most important ones. Entrepreneurship development is the need of the hour, therefore authorities and the 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 that will eventually reflect positively on the banks' portfolio. This is in addition to the positive outlook on the banks, as they are seen to be playing a role in developing the community and the economy.

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