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The Role of Banks in the Growth of Entrepreneurship in India

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Abstract

Entrepreneurs are often regarded as national assets who are motivated and rewarded to the greatest possible range mainly because they contribute in terms of innovation, jobs and improve the conditions for a prosperous society. Bank plays an important role in the development, growth and upgrade of entrepreneurship. There are entrepreneurs out there who want to start their own new business but it is challenging for maximum entrepreneurs to raise funds through equity because they lack financial knowledge and without funds, business can't develop and grow. Accordingly, finances are the primary source of funding for entrepreneurs for start their own business. Recently Government pushing, encouraging and inspires Young Indian Talents to start their own New Business. After that numerous new entrepreneurs came frontward to start own New Business. Entrepreneurship growth is a perception that has to do with the financing, establishment, evolution and growth of business. This Research paper is emphasis on the role of banks in the growth of entrepreneurship in India. It is intended at to find out what are the complications encountered by entrepreneurs in obtaining finances for their own new business and what are the difficulties are confronted by banks in permitting finances along with their contribution of entrepreneurship. Commercial and specialized banks always play an important role in the growth and development of entrepreneurship. Apart from providing financial assistance, banks also give valuable inputs to support and promote their enterprise. This Research paper also made an effort to know the existent scenario of entrepreneurship. The study is completely based on secondary data which is collected through Journals, Magazines and several other Sources of Secondary Data.

Keywords: Entrepreneurs, Entrepreneurship Development, Role of Banks, Complications

1. Introduction

Entrepreneurship introduces a precarious component of enthusiasm into an economic system. Entrepreneurship has been one of the greatest popular concerns that have stimulated the interest of young entrepreneurship and students in huge portion. The concern of receiving finances for the insignificant businesses and entrepreneurs is always been in argument. Remain unresolved in many countries due to unavailability of qualified undertaking entrepreneurs. Bank plays an important role in the economic development of the country. Without a sound and effective banking system, no country can have a healthy economy. The growth of digital banking has reduced the cost of starting/doing business tremendously. This has greatly helped entrepreneurs in modern days. Not all entrepreneurs are from a sound financial background. Most will need initial loans on reasonable interest rate in order to generate capital to start their venture or enterprise. It is self-explanatory but without funds, entrepreneurs cannot grow, and this is where banks, particularly commercial Banks play a significant role in the lives of entrepreneurs. Once an enterprise or business is set-up, then comes the important part, funding the cash cycle. Banks carry on ordinary banking business with the general public, changing cash for bank deposits and bank deposits for cash, transferring bank deposit from one organization to another, giving bank deposit in exchange of bills of exchange, providing of trustees and executor's services, providing safe custody of funds and valuables as well as foreign exchange remittance. The emerging and developing economies set the micro finance banks for this resolution. Still, it is contended that the entrepreneur and proprietor appearances various complications like documentation, securities and certification etc. Banks have difficulties while recovering loan and conceding loan. So, this research study is conducted to know the complications faced by both insolvents and Commercial and specialized banks.

2. Objectives of the Study
1. To identify the role of Banks in the Growth of Entrepreneurship in India.
2. To identify the complications faced by Entrepreneurs while accessing finance from bank in India.
3. To identify the problems created by economic environment, government and bank in India.
4. To identify the complications faced by Banks in the Permitting of Finance from bank in India.
5. To identify the complications faced by Banks in the Recovery of Finance from bank in India.

2.1 Research Methodology
This Research paper was conducted through secondary data and Secondary data was drawn from the Reserve Bank of India (RBI) publications, government reports, moneycontrol.com, India stat.com, journals and websites of individual Banks and Newspaper.

2.2 Scope of the Study
This Research paper was conducted completely on the basis of Secondary Data. Therefore, for enhanced result we can go for Research based Study. So, there is widespread scope of Research based Study on this subject.

2.3 Limitations of the Study
This Research work was limited to the extent that the researcher was unable to cover the entire Bank and borrowers in the country as a result-
- Short Time period within which the research was to be completed.
- Only Secondary data are used for research study.
- Shortage of cash (Cost of transportation, printing and editing).

3. Role of Banks in the Growth of Entrepreneurship in India
Banks are a secure way to keep valuable assets and money safe. Entrepreneurs can use the deposits to borrow funds from the bank. In today's era, the payment system has improved. They are permitting fast fund transfers which are crucial for business and enabled entrepreneurs to transfer currency immediately. Bank can give valuable advice to young entrepreneurs to invest their money in stocks or commodities. Banks reflect their exceptional role as the engine of growth in any economy. Commercial and specialized Banks especially ever remain critical to the evolution, development and growth of Entrepreneurship. The role of Banks goes outside their traditional functions which if entrepreneurs avail themselves of could be of incredible assistance in meeting their preferred needs. Their operations provide a dense backing encouraging entrepreneurs in profitable and workable schemes. There are several ways that Banks could get involved in small and medium scale enterprise finance, fluctuating from the formation or participation in small and medium scale enterprise finance investment funds, to the creation of special bond for financing small and medium scale enterprise finance. Along the lines of the main functions of Banks mentioned above, we shall now observe their part in enterprise financing and entrepreneurship growth. The determination of convenience and proper understanding, the parts can be classified as follows:

3.1 Constitutional Parts
Constitutional parts contain the main functions for which Banks were formed in the first place. Such parts are for illustration accepting of deposit, giving of finances and advances, safekeeping of similar and transfer of money etc. By accepting deposit of customers especially entrepreneur-consumers, the Banks will be providing safekeeping for consumers' money and giving them opportunity to use their deposit to borrow more money from the Banks to investment the running of their enterprises. A moral payment system which provides speedy fund transfers is dynamic for the efficient working of an economy. By funds transfer, money is moved from one account to another account and from one place to another place. Development of IT in Banks, the speed of service delivery has improved while the cost of doing business has reduced particularly. The facilities have enabled entrepreneurs to make transactions outside their immediate environment without essentially having to carry money about.

3.2 Funding Parts
By funding entrepreneurs' production, consumption and commercial activities, Banks lubricate the procedure of economic growth with multiplier conclusion across all sectors of the economy. Extension of credit to the economy for the financing of business enterprises is the essential link that Banks have to the actual sector, substitute like a catalyst and contributing to the growth of the economy of the country. Banks need deposits is to empower them grant loans and advances from which they earn Interest Income. The many methods by which Banks can advance money to entrepreneurs include overdraft, medium- and long-term loans, debt factoring, invoice discounting, asset finance including commercial mortgages and equity finance.

3.3 Recommended, Security and Consultancy Parts
Banks could offer recommended and consultancy services to the small and medium scale enterprise finance include methods of control systems to be approved by the initiatives with respect to defined lines of trend of challenges. Specific enterprises fail basically because of mismanagement, faulty investment decisions, in-efficient capital and foul planning etc. Calculation to the normal lending and other service, Banks currently engage in business advisory, guaranty and other consultancy services which support immensely in the promotion and financing of entrepreneurship activities in the country.

3.4 Business Investment Upgrade Parts
Because of the specialized and professional status of Banks, they are in a position to play Business Investment Upgrade Parts to entrepreneurs. Such parts may include advice on sustainable lines of investment, management of investment for consumers, to follow by investigating the professionals and frauds of each investment alternatives to the entrepreneur-consumer.

3.5 Supplementary Zones
Supplementary zones in which Advice on methods of reorganization of a company or raising capital to bring about the desired level of efficiency. Advice on tax and tax related matters are important. Status enquiry services could be offered to consequence credit purchases within the domestic

market. The Banks could also achieve a great role in entrepreneurship development by organizing, sponsoring and supporting entrepreneurship education and training programs either directly or in conjunction with other organizations and stake containers.

Complications faced by Entrepreneurs while accessing Finance in India

Sometimes, getting access to the funds is not so easy for Entrepreneurs. Subsequent are the Complications faced by Entrepreneurs whereas Accessing Finance in India. Some problems that Entrepreneurs face are-

- Banks need conventional security or insurance for loaning money and most business individual can't offer insurance. Therefore, the bank hand-me-downs the application for the finance.
- Absence of connections as a result of inability to network. It was clear that small business operators who do not belong to any association had thoughtful challenges in accessing finance and their businesses were being impacted negatively.
- Absence of guarantee security due to poverty. Banks assume guarantee security from the loan applicants (for risk), it is however unsuccessful that the majority of small business operators lack assets that can be accepted by Banks as guarantee. To the majority of small business operators, this is as a result of insufficiency.
- Taking finance from the bank is a lengthier process because it takes a lengthy period to process a business finance application.
- To get finance, banks need a business plan. A business plan is a roadmap of the business. The business plan covers estimated expenses of business inventory cost, rent of the outlet, business staff salary and so on. But sometimes, entrepreneurs lack such details in their business plans.
- Some small business operators have a tendency of overstating the amount required in their businesses, Banks also do not essentially approve to the amount applied for. While Banks do not approve to the amount applied for.
- Unavailability of appropriate financial records as a result of deficiency of financial management knowledge of lack of bookkeeping skills. It is surprising that various small business operators expect to acquire Bank finances even if they do not have any business records Banks were also accused of suspecting that all small businesses fail. In some cases, Banks do not see the possibility of some entrepreneurial ventures and as a result, they fail to access loans. Banks do not see the practicability of business ventures. To small business operators, Banks do not impartial agree to fund any form of business for they treat small businesses with attentiveness when it comes to granting credit.
- Misunderstanding 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 holder does. Some small business operators admitted that they couldn't interpret the business plans that were drawn by experts on their behalf; this reduced their capability to exchange for finances with Banks.
- Supplementary issues-

1. Don't know about the procedure of retrieving loan.
2. Absence of knowledge about finance accessible in Banks.
3. High Rate of Interest.
4. Unfortunate response from Banks.

Problems Created by Economic Environment, Government and Bank in India

The main reasons of creating problems by economic environment, government and bank in India are categorized in the following broad types:

A. Problems Created by Economic Environment:

- **Changing in Industrial Patterns:** Commercial banks tend to permission finances to the losing concern in order for further improvement of the respective sector, but they rarely succeed.
- **Changing in the Management Pattern:** Changing of management patterns may delay the recovery of mature finances.
- **Rapid Expansion of Business:** Many businesses expand rapidly, but only for a short time period. In the long run, the amount of classified finances increases.
- **Operation of Open Market Economy:** As a result of the emergence of the open market economy in our country, many businesses have become sick and have shut down. The cost of production is high and the quality of goods is not required of standard. As a result, they become the losing concerns and the amount of bad loans increases (Kumar Dey, *et al*., 2019).

B. Problems Created by the Government:

- **Instability of Government Policy:** Government's policies on loan recovery often go through frequent changes (Siddiqua & Zaman, 2015).
- **External Pressure:** As a result of ongoing pressure from various interested parties, commercial banks are likely to face a number of issues in the finance recovery process.
- **Legal Problems:** Existing rules and regulations do not adequately address the legal aspects of finance recovery. As a result, defaulters can easily be exonerated of all charges raised against them.

C. Problems Created by the Bank:

- **Connected Lending:** Some lending officers in the bank provide loans to their relatives or related businesses without taking into account basic lending principles. This practice frequently results in bad and unrecoverable loan debts.
- **Lack of Analysis of Business Risk:** Before lending, banks may fail to properly analyze the business risk of the borrowers, leaving the bank unable to predict whether the business will succeed or fail. If it doesn't work out, the loan is classified.
- **Inadequate Project Monitoring:** Incidences of bad and doubtful debts in banks may be as a result of inability to monitor and recover their loans due to lack of well-articulated and communicated loan policies to guide lending operations.
- **Lack of Proper Valuation of Security or Mortgage Property:** In some cases, banks are unable to determine the value of the collateral used to secure the loan. As a result, if the loan becomes classified, the bank will be unable to recover its loan through the sale of the

mortgage.

- **Inadequate Knowledge of Project Appraisal Techniques:** In some banks, some lending staff lack the academic and professional knowledge required to properly appraise projects. As a result, the majority of the loans granted by them become irrevocable (Chowdhury & Kumar Dhar, 2012).

Complications Faced by Banks in the Permitting and Recovery of Finance from Bank in India

Bank in recent times has unsuccessful as a result of finance recovery problems. Finance is the major source of bank profitability. Banks have their own objectives among which are profitability, safety, liquidity, growth and suitability. Loan, when not recovered could adversely affect banks. It is easily approved than recovered. It usually needs proficiency i.e., capability and expertise in the recovery process. Other attributes to the cause of these loan defaults are improper documentation, insufficient security, unstable economy, customer's dishonesty, gaps in legal handlings and improper perfection of security documents. Loan defaults are components of accounts receivable or credit extended to bank customers that cannot be recovered within the specified time period for one reason or another (Baniek *et al*. 2020). There are several complications are faced by Banks although permitting and recovery of finance, the major complications faced by Banks are as follows:

- **Customers Un-Cooperative Behavior:** Sometimes, the customers are very un-cooperative because it is very challenging to recover debt when the consumer doesn't answer the phone calls or sometimes disappears from their home.
- **Costly and Time Consuming:** The process of legal implementation is very costly and besides time consuming.
- **No Security to dispose and Realize Fund:** Guarantee is a property or other asset that a borrower offers as a way for an investor to secure the loan. If the borrower stops making the promised loan payments, the investor can seize the security to recover its losses. An investor's claim to a borrower's guarantee is called a lien. Since guarantee offers some security to the investor should the borrower fail to compensation back the loan, loans that are secured by guarantee typically have lower interest rates than unsecured loans. If Banks granted loans without guarantee security, then it will face severe problems while recovering loans. Some of the bank loans have any guarantee pledged against them. Consequently, if such beneficiaries default, there will be no security to dispose of and recover at least part of the loan.
- **Peoples' Attitude towards Loan Payment:** Some borrowers take loan to be national gifts from the government and as such, they do not repay them. Banks do not down to watch the debtors. They make serious effort to see that they recover those loans. Finally, it is time that the banks do provide bad debts, doubtful debt etc. This is done to ensure suitable protection for the size of credit portfolios rather than an image of actual losses to the banks.
- **Liquidity:** The liquidity of the assets is similarly a big problem because sometimes it is very tough to sell an asset appropriated by the bank. The assets take long time, even years, to sell.
- **Complications of Finance Avoidance:** Problem loans and losses essentially replicate the difficult risk essential in a borrower's ability and willingness to repay all obligations. Loans are classified as problem credits when they cannot be refunded. The advancing process by its nature is imperfect. Credit analysis may be incomplete or based on defective data. Loan officers may ignore the accurate condition of borrowing with strong personal draws with the Bank, and a borrower's ability to repay may simply change after a loan is granted. If management concentrates merely on minimizing losses, a Bank will make virtually no loans; profit will shrink and the legitimate credit requirements of consumers will not be met. Investors 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 goals.

4. Recommendations

Once a loan is identified as a problem, banks are faced with how to avoid possible loss. Government and financial institutions including the World Bank should improve a strong universal approach to schemes and programs formed by them. All managerial blockages and severe conditions which make funds unreachable to SMEs should be removed by the Banks and the establishments. And to achieve this, the following recommendations were made:

- **Monitor Its Outstanding Loans:** Banks should monitor its outstanding loans in order to identify promptly loans which a borrower fails to repay as scheduled.
- **Risk Control Procedures:** Banks should use some of the risk control procedures to guide against losses. An example of this is covenant which is a written agreement whereby the borrower commits himself of providing specific financial statement at specific intervals during the life of the loan.
- **Compensating Balance**: This is a system under which the borrower agrees to maintain specific level of deposits at the lending bank.
- **Financial Statement provided by the Customer:** Before granting loans, banks should examine critically the assignment of financial statement provided by the customer (cash budget, income statement etc.).
- The government should educate on the requirement to repay loans.

5. Conclusions

The banks play a significant role in developing entrepreneurship and the economy. The banks provide Loans to entrepreneurs. The entrepreneurs or business owners invest the money in their business. This study has a large extent attempted to analyze the finance permitting and its recovery complications on banks. Entrepreneurship development is the requirement of the hour; therefore consultants and the Banks should actively involve themselves. In the current scenario many startup entrepreneurs do not consider bank loan as a source of finance because many startup enterprises wish to gain bank loan in fact huge number of startup enterprises appreciate bank finance as a long-term source of investment for their business but in reality, only a very small number are successful in receiving bank loan successfully. The startup entrepreneurs face many problems in availing bank finance and after trying it for number of times they go for other source of finance. Although government is taking many steps to provide adequate finance to startup entrepreneurs and for the same cause many schemes are also lunched too by the government but the out is still questionable. Entrepreneurship growth, development and funding are being shared by numerous organizations and associations among which Banks are the most important ones. Banks profit from their contribution in the growth, development and funding of small and medium sized enterprises by increasing their consumer base and consequently expanding into new areas of business that will eventually return positively on the Banks' range.

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