3.1: Introduction

The primary aim of this study is three fold. One, to analyse the access to finance related problems of owner-managers of micro and small enterprises, two, to assess the entrepreneurial readiness of worker-artisans, and three, to map the best practices of select countries in improving access to finance for MSMEs. Although no systematic and serious researches had been carried out on these aspects in the select district, there have been few studies in the related areas in several countries including India. A review of the studies that were relevant for the current research is attempted here in four broad areas namely, development trends in MSMEs including clusters, access to and use of finance by MSMEs, SHGs, Microfinance and Entrepreneurship and finally the best practices in improving access to finance for MSMEs. The choices of these studies were driven by the availability of materials in the related fields. This chapter also includes various concepts used in the study.

3.2.1: Development Trends in MSMEs Including Clusters

Hyyitinen, Ari and Toivanen, Otto (2005) did a work on ‘Do financial constraints hold back innovation and growth? Evidence on the role of public policy’ based on a new data ELTA in Finland between December 2001 and January 2002. The study attempted to bring out the evidence on the question of causality between finance in general and Government finance to private Research & Development and firm growth in particular. The study used Tobit
regression model and found supportive evidence to the hypothesis namely “if there are economically significant imperfections in capital market, government funding may disproportionately help firms in industries that are dependent on external finance”. The study shows that firms in industries that are more dependant on external financing invest relatively more in research and development and are relatively more growth oriented when they have more Government funding (potentially) available. The findings suggest that the market for SME finance is imperfect.

Saka, Ayse, Helmhout & Karabulut Elif (2006) have done a work on ‘Institutional barriers to entrepreneurship in clusters - evidence from the Turkish textile sector’ in Turkey in 2004. The study has attempted to highlight the extent to which the institutional context of a country can inhibit entrepreneurial activity in clusters despite the initiatives of cluster to foster such activities in the context of developing countries. The study explores the contention that “cluster may not generate the same economic benefits when embedded in weak state-organised institutional settings as when operating in strong collaborative institutional context”, through a study of inter-firm relation and economic performance in Denizli district of Turkey. The study was designed through case study method. The findings revealed that despite the common social and cultural background, the organisation of linkages among business actors was constrained. Cooperation in the form of joint investment or collaborative projects, as one of the main features of clusters, was not observed, owing to the weak institutional context in which these firms were
embedded. Although this might be expected to discourage economic benefit, performance, particularly in terms of efficiency and relations with internal and external customers, was perceived to be high by the cluster firms.

3.2.2: ‘Access to’ and ‘Use of Finance

Edwards, Pamela and Turnbull, Peter W. (1994) did a work on ‘Finance for small and medium enterprises: information and the income gearing challenge’ in UK during 1990 and 1991. The study had attempted to examine the viability of loan evaluation process from the perspective of the reliability and availability of forecast information, if the finance gap can be reduced by income gearing approach. The study looks from the angle of borrower than from the lender. The study used a combination of personal interviews and postal questionnaires. The evidence from the survey suggests that there is lack of motivation together with time pressure, which precludes the preparation of forecast information. This stems from the perception that there is no demand for better quality or different information. The study concluded by stating that if the companies were to use income gearing as an effective tool for obtaining loans, then a culture change was necessary in terms of preparation and dissemination of budgets and other financial information both internally and externally.

Hughes, A (1997) in his work ‘Finance for SMEs: A UK Perspective’ summarises the results arising from the research conducted under ESR.C small firms research programme that includes the national SME surveys of over 2000 firms. The paper concluded that the evidence for general debt or equity gaps in
UK was weak. It argues that consideration could be given to the promotion through seedcom funding of SMEs cooperative or mutual guarantee schemes to reduce information asymmetry in UK credit markets.

Cressy, Robert and Olofsson, Christer (1997) had done a work on ‘European SME financing’. The study describes the characteristics of small businesses. The study states that there is little need for variety of sources of finance as the firms follow pecking order hypothesis and limited prospects for growth or scope for product diversification or product process development. The study quotes that the smaller firms do not generally wish to grow beyond ‘minimum efficient size’ as propounded by Hay & Morris (1991). The study concludes that the availability of external finance will not in itself solve the problem.

Shutt, Theresa and Vanasse, Pierre (1999) did a work on ‘Sources of SME business debt financing in Atlantic Canada’. The study documents the different sources of debt that have been used by SMEs in Atlantic Canada such as domestic banks, foreign banks, life insurers, trust and mortgage loan, credit unions, specialised finance companies, credit card companies and crown corporations. Canadian SMEs also use a variety of alternative loan instruments from traditional commercial loans to leasing and credit cards.

Beck et al. (2000) did a work on ‘Finance and the sources of growth’ in June 1999. The study evaluates the empirical relationship between the level of financial intermediary development and (i) economic growth, (ii) total factor productivity growth, (iii) physical capital accumulation; and (iv) private saving rates. The researcher had used (a) a pure cross-country instrumental variable
estimator to extract the exogenous component of financial intermediary development, and (b) a new panel technique that controls biases associated with simultaneity and unobserved country-specific effects. After controlling these potential biases, the study found that (1) financial intermediaries exert a large, positive impact on total factor productivity growth, which feeds through to overall GDP growth; and (2) the long-run links between financial intermediary development and both physical capital growth and private saving rates are tenuous.

Jenkins, Hatice (2000) did a cross-country study of 78 countries on ‘Commercial bank behavior in micro and small enterprise finance’. The aim of this study was to understand what encourages or discourages banks from making loans to micro and small enterprises, and to identify the factors that contribute banks’ success or failure in this area. The study used simple frequency tables, regression and chi-square analysis. The main conclusions of this study were, commercial banks worldwide are major sources of both micro and small business finance, the banks are in this business mainly for commercial reasons and not because of Government requirement or policies; when banks do not disburse loan, it is mainly due to financial and organizational barriers rather than social and cultural problems, and banks mostly rely on collateral in the assessment of small business loans and this often adversely affects and hence results in higher arrears. Further, banks imposing restrictions on savers to open a bank account, such as minimum deposit requirement that caused them to mobilise smaller amounts of savings as compared to banks that encourage such savings behavior.
Paul Cook and Frederick Nixson (2001) have done a work on ‘Finance and SME in developing countries’. The study attempted to bring out the research gaps in finance and SMEs sector in developing countries. The study has taken into account the existing body of literature in the area of finance and SMEs development. The study has brought in empirical researches that were carried at the macro economic level of developmental approach to SMEs promotion, efficiency and firm size, growth and efficiency of small firms, role of finance to SME and the reasons for small enterprises’ failure and small enterprise development. The study tabulates the approaches of different studies incorporating the results from empirical studies, principal-agent models and transaction cost hypothesis. It has further identified four strands of research that would contribute to a better understanding of financial needs of SMEs and the ways to deliver financial services to them.

Isaksson, Anders (2002) did a work on ‘Access to formal finance in Kenyan manufacturing’. The study found that the factors affecting the credit decisions of banks include firm status, firm size, ethnicity, the ability to provide collateral and to some extent the proximity between lenders and boiTowers. The study also found that formal firms borrow a lot more than informal firms, the factors that influence the probability of obtaining short and long term loans and the amount of loan a firm gets to borrow includes greater access to formal finance, fluctuation in cash flow and firm age. The study also says that the firm age is positively related to the likelihood of obtaining formal credit as well as the amount of financing a firm is able to raise, due to its social and business networks.
Stratos Papadimitriou and Panos Mourdoukoutas (2002) did a work on ‘Bridging the start-up equity financing gap: three policy models’. The article brought out three policy models that helped start-up firms in financing, particularly equity financing. The article described the difficulty in raising capital at various stages of high-tech start-ups and cites studies regarding the difficulties involved in obtaining finances and SME risk premium in various countries. The study described three models adopted by the Governments of US, Israel and Irish. The article states that US policy makers have been indirect and ‘passive’ partners providing funds and creating the regime that is conducive to the growth of private venture capital industry. Israeli policy makers have been less indirect and ‘catalysts’, taking equity positions in start-ups and in venture capital funds in partnership with private sector. Irish policy makers have been direct ‘active’ investor, setting up and managing start-up venture capital funds.

Ayyagari et al. (2003) did a work on ‘Small and medium enterprises across the globe: a new database’ in August 2003. This study described a new cross-country database on the importance of small and medium enterprises (SMEs). The SME data were drawn from existing cross-country databases, complemented in many cases with information from country-specific sources. This database was unique in that it presented consistent and comparable information on the contribution of the SME sector to total employment and GDP across different countries. The dataset improvised on existing publicly available datasets on several grounds. First, it extends coverage to a broader set
of developing and industrial economies. Second, it provides information on the
contribution of the SME sector using a uniform definition of SMEs across
different countries allowing for consistent cross-country comparisons. Third,
while we follow the traditional definition of the SME sector as being part of the
formal sector, the new database also includes the size of the SME sector
relative to the informal sector. This study described the sources and the
construction of the different indicators, presented descriptive statistics, and
explored correlations with other socio-economic variables.

RAM consultancy services (2005) did a work on ‘SME access to
financing: addressing the supply side of SME financing’. This study
summarised the key research findings of the main impediments to SMEs access
to financing for the ASEAN member countries. This study seeks to discover
the factors that inhibit SMEs lending by financial institutions through
examining the institutional, legal and regulatory framework present in ASEAN
member countries. The study has found that some financial institutions are risk
averse to lending to informationally opaque SMEs, while others simply do not
have the skills needed to understand and evaluate SMEs. Banks demand for
collateral, require onerous documentations and subject the SMEs to the same
evaluation criteria as they would for large and structured corporations. Non-
bank financial institutions (such as finance or credit companies) and smaller
boutique banks are usually found to be more perceptive and knowledgeable
about SME financing than their larger cousins.
Alen N Berger and Gregory F Udell (2006) have done a work on ‘A more complete conceptual framework for SME finance’. The study proposes a more complete framework in which lending technologies play a key role as the conduit through which government policies and national financial structures affect SMEs credit availability. The study has shown that a nation’s lending infrastructure affects the extent to which each of the individual lending technologies are employed in financing SMEs. The study defines and describes each of the lending technologies, highlights its distinguishing features and shows how the technology addresses the opacity problem. The lending technologies described are, financial statement lending, small business credit scoring, asset based lending, factoring, fixed asset lending, leasing, relationship lending and trade credit. The study has also reviewed the research findings with regard to the comparative advantages of large vs. small institutions, foreign vs. domestically-owned, state vs. privately owned institutions and market competition. The investigation suggested that the lending infrastructures have important effects on SMEs credit availability.

Hussain, J.G., Matlay, H. (2006) did a work on ‘SME financing in the UK and China: a comparative perspective’ during December 2005 to February 2006 in China. The study had attempted to investigate the access to finance and other related issues as explained by owner-managers in both UK and China. The study used only percentage analysis for comparison. The survey requested qualitative and quantitative information on sources of finance, both preferred and actually used during three stages in their business lifecycle: at start-up, two
years after and over next five years. The study had found that there are similarities as well as differences between the two countries. In terms of start-up funding, respondents from both countries relied more on their own savings and their immediate family. After two years the respondents exhibited more reliance on own savings and financial support from banks/FIs. At the end of five years of uninterrupted economic activity, most of the owner-managers in UK relied primarily on banks/FIs for their borrowings and in lesser extent to their own savings. In contrast, in China, owner-managers depend mainly on their own immediate family and in lesser extent on banks/FIs. The study suggested further research with more samples.

Voordeckers, Wim and Steijvers, Tensie (2006) did a work on ‘Business collateral and personal commitments in SME lending’ in Belgium. The study attempted to bring out the determinants of both types of collateral protection namely business collateral and personal commitment simultaneously. The study used ordered probit model and continuation ratio logit model. The study found that firm and relationship characteristics seem to be more important than loan and lender characteristics. Trade credit has a possible signaling effect, meaning, more the trade credit, less would be the commitment or collateral, collateral requirements decreases in the length of the bank-borrower relationship, and iaxy bank proposition is not supported on this study.

Thorsten beck and Asli Demirguc-kunt (2006) did a work on ‘Small and medium sized enterprises: access to finance as a growth constraint’. This study has shown that access to finance is an important growth constraint for SMEs
that financial and legal institutions play an important role in relaxing this constraint, and that innovative financing instruments can help facilitate SME’s access to finance even in the absence of well developed institutions. It further discusses the market structure and innovative lending tools. Some of them being credit scoring techniques, leasing and factoring. The research has a number of important policy implications.

Vos et al. (2007) did a work on ‘The Happy Story of Small Business Financing’. This study examines two datasets, one from UK and the other from US to show that SMEs financial behavior demonstrates substantial financial contentment, or happiness. The study used Logit Regressions model. The study found that in the SME’s world, the desire for growth is tempered. Availability of finance, other than for working capital or funding moderate growth, seems relatively unimportant. The degree of owner involvement in the firm - connectedness - is most related to the returns, which is away from rational risk-return model. The increasing years of work experience is a positive determinant of loan applications; however, older firms fear loan denial less than younger firms and also apply less often - showing the connectivity and increasing financial contentment with firm age. If age and education contribute to wisdom, then it is interesting to observe that wisdom leads to financial contentment, or happiness in the SME sector. Independence and control are oft-given reasons for the differences in SME financial behavior compared to publicly listed firms.
Ayyagari et al. (2008) have done a work on ‘How important are financing constraints? The role of finance in the business environment’. The study identified the features of the business environment that directly affect firm growth. The researcher used the World Business Environment Survey data, conducted by the World Bank in 1999 and 2000 in 80 developed and developing economies. These data are used to assess whether each feature of the business environment that firms report as an obstacle affect their growth, the relative economic importance of the obstacles found to constrain firm growth, whether an obstacle has a direct effect on firm growth or acts indirectly by reinforcing other obstacles that have a direct effect, and whether these relationships vary with the level of economic development and firm characteristics. The study used regression and directed acyclic graph (DAG) methodology by an algorithm used in artificial intelligence and computer science. The study found that although firms report many obstacles to growth, not all the obstacles are equally constraining. The study further found that only obstacles related to finance, crime and policy instability directly affect firm growth. The finance result is shown to be most robust. The results have important implications for the priority of reforms. Maintaining policy stability, keeping crime under control and undertaking financial sector reforms to relax financing constraints are likely to be the most effective routes to promote firm growth.

Johnston, Don. Jr and Morduch, Jonathan (2008) did a work on ‘The unbanked: evidence from Indonesia’. The study analysed the prospects for the expansion of financial access to poor. The sample frame is a randomized
stratified sample covering 1438 Indonesian households in six provinces in fall 2002 to judge their creditworthiness. The study found that about 40 per cent of poor households were judged creditworthy according to the criteria of Indonesia’s largest microfinance bank, BRI, but fewer than 10 per cent had recently borrowed from a micro bank or formal lender. Possessing collateral appeared as a minor determinant of creditworthiness, in keeping with microfinance innovations. Although these households were judged to be able to service loans reliably, most desired only small loans. Calculations show that the bank, given its current fee structure and banking practices, would lose money when lending at the scales desired. The study also found a potential mismatch of products and customer demand. The findings suggest the need to move from thinking exclusively of ‘microcredit to microenterprise’ towards credit for general purposes. The paper concluded that while innovations have helped to extend financial access, it was difficult to lend in small amounts and cover costs. Hence, it was felt that that policy makers have to promote the expansion of financial access for the poor by supporting technological innovations and could use group-lending methods to reduce the costs. The challenge mainly rested with further developing business models that supported lending at small scales.

Beck, Demirgüç-Kunt and Maksimovic (2008) did a work on ‘Financing patterns around the world: are small firms different?’, in 2004 using a firm-level survey database covering 48 countries. The study investigated how financial and institutional development affects financing of large and small
firms using the World Business Environment Survey database. It was found that the small firms and firms in countries with poor institutions use less external finance, especially bank finance. The protection of property rights increases external financing of small firms significantly more than of large firms, mainly due to its effect on bank and equity finance. Small firms do not use disproportionately more leasing or trade finance compared to larger firms. Financing from these sources is positively associated with the financial development and does not compensate for lower access to bank financing of small firms in countries with underdeveloped institutions.

Thorsten Beck, Asli Demirguc-Kunt and Maria Soledad Martinez Peria (2008) did a work on ‘Banking services for everyone? : barriers to bank access and use around the world’ in 2004 and 2005 using survey data from 209 banks in 62 countries. The study has developed new indicators of barriers to access and use of banking services around the world. The research shows the correlation of indicators with existing measures of financial outreach, and explores the association of these indicators with bank and country characteristics. The study has used regression and probit models. Barriers such as minimum account and loan balances, account fees and required documents are associated with lower levels of banking outreach. While country characteristics linked with financial depth, such as effectiveness of creditor rights, contract enforcement mechanisms, and credit information systems, are weakly correlated with barriers; strong associations are found between barriers and measures of restrictions on bank activities and entry, less disclosure and
media freedom, and poorly developed financial infrastructure. Also, barriers for bank customers are higher where banking systems are predominantly government-owned and are lower where there is more foreign bank participation. Larger banks seem to impose lower barriers on customers, perhaps because they are better positioned to exploit economies of scale and scope.

From the above review it is found that there is a dearth of work on ‘the access to’ and ‘the use of finance at the enterprise level in developing countries in a cluster setting and that too in the handicraft (Metalware) industry that speaks for Indian history, culture and heritage. Hence, the researcher bridges this gap and adds to the existing literature. This study also investigates few research questions raised in prior studies and validates other general findings.

3.2.3: SHG, Microfinance and Entrepreneurship

Ramalingam (1987) conducted a work on ‘Studies of SHGs of Rural Poor’ in 1987 through a case study method and found that the group system failed. The members had come together only for the sake of taking loan and the group pressures did not work because the group did not have any cohesiveness and also that the group comprises of both poor and non-poor classes.

Pugazhendhi (1995) did a work on ‘Transaction costs of lending to the rural poor: NGOs and SHGs of the poor as intermediaries for banks in India’. The study brought out the benefits for both lenders as well as borrowers in terms of decreased borrowing costs for both. The study found that lending through SHGs reduces the bank transaction costs by 41 per cent while the borrowers’ transaction costs come down by 85 per cent.
Robert, Hickson (2001) did a work on ‘Financing Services for the Very Poor: Thinking Outside the Box’, a study on the slum dwellers- of Dhaka, Bangladesh. The study found that the better-off households utilise microfinance services more extensively than their poor counterparts. The study found that on an average, the better-off households were participating in slightly over three different microfinance programmes while the poor ones were participating in only about 1.8 programmes.

Haider, Shanthana.R (2003) has done a work on ‘Poverty outreach and BRAC’s microfinance interventions: Program Impact and Sustainability’. The study has analysed the impact of micro finance programmes of BRAC in Bangladesh and observed that the poverty among BRAC households has reduced by seven percent from 59 per cent to 52 per cent during the last four years while the incidence of poverty among the non-BRAC households has increased from 68 per cent to 73 per cent during the same period.

Cecile Nieuwenhuizen and Jaap Kroon (2003) did a work on ‘The relationship between financing criteria and the success factors of entrepreneurs in small and medium enterprises’ in South Africa. The study attempted to bring out the success factors of small industrialists and the extent to which they are taken into account by the screening criteria of financing institutions. The study had involved two primary SME role players in South Africa namely small industrialists (Small, Medium and Micro enterprises) and financiers of SMEs. A preparatory study and empirical research was conducted to identify the success factors of successful small industries. Various statistical techniques
were used to analyze the data like frequency analysis, the determination of effect sizes using Cramers V and a factor analysis was used to determine the most important success factors. At the end, 11 financing criteria corresponding with success factors were identified. They are, three in personal front namely creativity and innovation, commitment to enterprise and involvement in enterprise, eight in management skills namely, planning for enterprise, knowledge of competitors, mainly market focused, quality work enjoys priority, client service, financial understanding, financial management, and, knowledge, skills and use of experts. The study gave recommendations under six headings namely leadership, knowledge, skills and use of experts, market orientation, financial insight and management, creativity and innovations and risk orientation. The study concluded by saying that banks should consider providing finance with little security but who comply with important criteria affecting their success, the six points that were given in this study.

Mohanty (2005) in his work on ‘Mega socio-economic transformation thru’ microfinance: the NABARD experience’, bring out the experiences of NABARD in promoting SHGs and the linkage between SHG and the formal banking infrastructure. The study covers the global and Indian scenario of rural poor and the genesis of microfinance. It highlights some of the international initiatives in this area. It then defines SHGs and their linkage with banks with special reference to NABARD’s SHG-BLP. The study has spelt out three models that are commonly adopted and the outcome of SHG-BLP. It further states the achievements under the microfinance programme, designing a
conducive environment for scaling-up, the spread of SHGs, the recent innovations in microfinance such as the use of smart cards, linking SHGs with post offices, computer munshi, Grain banks and SHGs and Joint Liability Groups. It finally states some management lessons and future perspectives.

Tara S Nair (2005) has conducted a research on ‘The transforming world of Indian microfinance’. The study attempted to bring together various developments in this field. This research discusses two broad approaches to microfinance, the Latin American Model and South Asian Model, and provides an alternative view of up-scaling of micro credit. The study refers to many other studies and government documents to say that up-scaling the provision of microfinance only based on the strength of its performance (measured primarily in terms of the repayment rates and financial sustainability indicators) of a handful of MFIs without a serious reconsideration of certain vital development issues, may prove in the long run to be an imprudent development strategy. The study cites macro trends in intermediation, the decline in share of agricultural credit (which suggests a decline in capital and credit intensity on the sector), regional disparity in disbursement of credit, predominance of large farmers in total credit disbursement and domination of male borrowers. The research has also touched upon the convergence of formal and informal sectors through commercialisation of microfinance by means of transformation and downscaling.
From the above review, the present researcher would like to use the findings of the studies conducted so far to find out whether the SHGs can be a tool for promoting entrepreneurship.

3.2.4: Best Practices in Improving Access to Finance for MSMEs

Beck, Demirgüç-Kunt and Maksimovic (2002) conducted a research on ‘Financing patterns around the world: The role of institutions’, using a two-stage model of the financing process and the data from the World Business Environment Survey (WBES) covering 48 countries. The paper investigates whether differences in financial and legal development affect the way the firms finance their investments. The results of the findings indicate that external financing of investments is not a function of institutions, although the form of external finance is. The paper also identifies explanations for this. First, legal and financial institutions affect different types of external finance in offsetting ways. Second, firm size is an important determinant of access to different types of external finance. Larger firms with financing needs are more likely to use external finance compared with small firms. The results also indicate that these firms are more likely to use external finance in more developed financial systems, particularly debt and equity finance. The authors also found evidence consistent with explanations for the pecking order theory in financially developed countries, particularly for large firms.

Jonathan Tucker and Jonathan Lean (2003) did a work on ‘Small firm finance and public policy’ during the year 1999. The study has attempted to examine how a finance gap for small firms might be addressed by means of
government policy to support informal financing activities. The study gave two models namely information asymmetry in small firm lending and policy prescription and QCOM finance. The study provides a review of specific informal finance instruments. It further states that lending bodies exist in a continuum, whereby their lending criteria can be gauged anywhere from purely non-commercial through purely commercial. At the commercial extreme exist conventional banks and capital markets, where as in non-commercial extreme exist government and charities providing soft loans and grants. The study defines Quasi-Commercial or QCOM finance. Any lending body that employs CAMPARI type criteria (Character, Ability, Means, Purpose, Amount, Repayment, Interest and Insurance) plus at least one of non-commercial criteria (environmental, social or community impact) might be termed QCOM lender. The study explains some QCOM finance sources such as specialist lenders (social banks), matching agreements, mutual support groupings (credit unions), micro finance initiatives and provision of risk capital. Four categories of policy action emerged from the study towards the achievement of economic and social policy objectives, namely legislation/regulation, information provision, direct funding and network provision for both debt and equity finance.

Kalyan Kumar Sarkar (2005) did a work on ‘Alternative models of finance for the SME sector in India - some issues & suggestions’. This study reveals some interesting facts about the contribution of SMEs to Indian economy, their problems, constraints and potential. It further discusses the causes of failure and cites an AIMA study stating that 46 per cent of SME
failure is only due to finance. The study then lists the traditional sources of finance for SMEs and states that the SMEs are deprived of adequate finance even when banks are flush with funds. The study further explains some of the alternative finance such as factoring services, venture capital finance and finance through capital markets.

De la Torre et al. (2007) did a work on ‘Innovative experiences in access to finance: market friendly roles for the visible hand?’. The study aims at filling one of the many gaps in the literature of access to finance. The study had two objectives. The first one was to discuss some conceptual issues in access to finance. The second one was to describe some recent experiences in broadening access to credit. These experiences are consistent with an emerging new view that recognised a limited role for the public sector in financial markets, but contends that there might be room for well-designed, restricted interventions in collaboration with the private sector to foster financial development and broaden access in non-traditional ways. The paper illustrates this new view with several recent initiatives in Latin America and discusses some open policy questions about the role of the public and private sectors in driving these financial innovations.

Allen, F. et al. (2007) did a work on ‘Financing firms in India’. This study uses a single-country setting, India, to examine the complex linkages between legal and business environments, financing channels, and growth patterns of different types of firms. The study employed three types of large and extensive data sets to conduct the analysis. First, the country-level data in
India and a large sample of countries studied in the law, finance, and growth literature. Second, a sample of over 2,700 non-financial Indian firms, both large corporations and small and medium enterprises (SMEs), from the Prowess database of the Centre for Monitoring the Indian Economy (CMIE). Finally, two extensive surveys of SME firms including their ownership structure, financing channels, and governance mechanisms. These surveys cover 212 entrepreneurs and senior executives of SME units located in the cities of Hyderabad and the Delhi-Gurgaon area. The study found that the Indian firms appear to be beset by weak investor protection in practice and poor legal and Government institutions characterised by corruption and inefficiency. With extensive country and firm-level data sets, it was found that to a large extent Indian firms conduct business outside the formal legal system and do not rely on formal financing channels from markets and banks for most of their financing needs. The small and medium firms use non-legal methods based on reputation, trust and relationships to settle disputes and enforce contracts, and rely on alternative financing channels such as trade credits to finance their growth.

Ganbold, Bataa (2008) did a work on ‘Improving access to finance for SME: international good experiences and lessons for Mongolia’ in October 2008. This research studied the regulatory and institutional constraints to the financing of SMEs in Mongolia to find out the best practices from international experiences to outline policy recommendations. The study discusses the international good experiences under three titles namely role of financial
intermediaries, role of Government and public sector policies and specific
financing technologies relevant to SMEs.

From the above, the researcher recommends some of the best practices
in financing MSMEs from other countries and to identify possible future
direction for the ‘access to’ and ‘use of finance by the MSEs in India.

3.3: Concepts

3.3.1: Access to finance: Access to finance commonly refers to the
availability of supply of quality financial services at reasonable costs to
all.

3.3.2: Artisan credit card: A credit card provided by the bank to the artisans

3.3.3: Bill discounting: A facility provided by the bank through which the
trade bills can be negotiated for earlier payment for a commission.

3.3.4: Cluster: The very basic definition of an industry cluster is
“geographical concentrations of industries that gain performance
advantages through co-location (Doeringer and Terkla 1995:225).”
Most experts define it as a geographically bounded concentration of
similar, related or complementary businesses, with active channels for
business transactions, communications and dialogue that share
specialized infrastructure, labor markets and services, and that are
faced with common opportunities and threats (Rosenfeld 2002).

3.3.5: Collateral or security: Whenever firms go for debt, they have to show
the assets that they possess in order to borrow the money. In case of
default, the lender can have legal recourse to get the money back
including sale of such assets.
3.3.6: **Commercial Bank or Bank:** It is a financial intermediary that provides formal financial services to the individuals and firms.

3.3.7: **Disproportionate Stratified Random Sampling:** A methodology that chooses the samples for investigation. Samples are chosen from the strata on a random basis and not on a proportional basis.

3.3.8: **Entrepreneurship:** Entrepreneurship is the practice of starting new organisations in response to identified opportunities.

3.3.9: **Factoring or Receivables financing:** Factoring is a financial transaction whereby a business sells its receivables (invoices) at a discount.

3.3.10: **Firm size:** The size of balance sheet of a firm.

3.3.11: **Formal debt or borrowing:** This is the money received by the firm in the form of loan from formal sources such as banks and financial institutions.

3.3.12: **Gross Domestic Product (GDP):** The value, at current market prices, of the total final output produced inside a country during a given year. Real GDP takes nominal GDP and correct for price increases.

3.3.13: **Informal source or credit / local financier:** Refers to the money received from the money lenders and pawn brokers at very high interest rates.

3.3.14: **Information asymmetry:** This refers to the information gap between the firms’ managers and the providers of money to the firm in that the managers know more about the firm than the providers of finance.

3.3.15: **Lead banker:** A bank having a relatively large network of branches in the rural areas of a given district and endowed with adequate financial
and manpower resources has generally been entrusted with the lead responsibility of that district.

3.3.16: Letter of credit or export financing: A letter of credit is a document issued mostly by a financial institution, used primarily in trade finance, which usually provides an irrevocable payment undertaking to a beneficiary against complying documents as stated in the LC.

3.3.17: Line of credit: It is a facility extended to a business by a bank or financial institution. It is like an account that can readily be tapped into if the need arises or not touched at all and saved for emergencies. Interest is paid only on the money actually taken out.

3.3.18: Long term bank loan: The loan obtained from the bank that can be repaid over a longer time period, longer than one year.

3.3.19: Micro finance: Provision of credit and other financial services to poor, the scale of which is very small which ranges from a few hundreds to a few thousands of rupees.

3.3.20: Mnemonics: Mnemonics refers to assisting or intended to assist memory. Mnemonics are usually like acronyms which help in remembering.

3.3.21: Networking: more to do with Referrals. A factor that was found useful in getting credit from a banker through known sources.

3.3.22: Overdraft facility: A facility provided by a bank to draw down more than the balance available in the current account.

3.3.23: Owner-manager: In a sole proprietorship type of firm, the owner himself takes all the business decisions even if there were many
managers / employees working under Mm. Hence he is called as owner-manager.

3.3.24: Owner’s capital: The money invested by the owner of the firm.

3.3.25: Retained earnings: the surpluses or residual of previous years’ income.

3.3.26: Reputation: Is the image of the MSE and its owner-manager in the mind of banker.

3.3.27: SHG: Self help groups are the groups of men or women, which have an average size of about 15 members from a homogenous class. They come together for discussing their common problems- and seek solution.

3.3.28: Short term bank loan: The loan availed from the bank that has to be repaid within one year.

3.3.29: Size: Refer firm size.

3.3.30: Snowball Method: A sampling method where the samples are chosen on the basis of referrals.

3.3.31: Society: A cooperative society, formed under the government initiative, for the welfare of the artisans to enable organised marketing of the produce.

3.3.32: Socio-economic characteristics: The characteristics representing societal and economic factors such as age, income, family size, bank account, savings among others.

3.3.33: SSI I SME / MSE / MSME: According to Micro, Small and Medium Enterprises Development Act 2006 (MSMED Act 2006), a micro enterprise is defined as one, where the investment does not exceed
twenty five lakhs, a small enterprise, where the investment is between twenty five lakhs and five crores and a medium enterprise, when the investment is between five crores and 10 crores.

3.3.34: Sthapathi: A sect of people among the kammalas community at Swamimalai who are making bronze icons.

3.3.35: Trade credit: The credit available from the suppliers of raw materials.

3.3.36: Turnover: Is the earnings of a firm that comes through sales revenue.

3.3.37: Worker-artisan: Is the one works under the owner-manager. He earns either monthly salary or wages per day / per piece. Even though both owners as well as workers are basically artisans, the term worker-artisan is used to differentiate them from owner-managers.

3.3.38: Working capital: the capital that is needed for the day-to-day working of a firm such as cash, inventory of raw materials, work-in-progress and finished goods, and trade receivables.

3.3.39: Would-be entrepreneur: A worker-artisan who wants to start the new business.

3.4: Conclusion

Access to finance covers a very broad area. Many of the earlier researches were country specific and incorporated both household and firm level data. On the contrary, the present study considers the access to finance related problems of micro and small enterprises of two clusters in a single district and industry set-up. The present study also considers the men SHGs, factors influencing bank credit and international good practices.