LITERATURE REVIEW

INTRODUCTION

There is a vast and varied type of literature on issues related to Small Scale Industries/SMEs in general and with special reference to problems related to access to finance. In this chapter, an attempt is made by the researcher to provide reviews of work related to problems of SMEs in accessing finance from Commercial Banks in India and Foreign countries. This chapter is divided into two parts. First part includes the review of the earlier studies concentrating on the problems faced by SMEs in accessing finance, importance of Commercial Bank finance to SMEs and Obstacles in financing to SMEs by Commercial Banks in India and Foreign Countries. The Second part includes the reviews of the earlier studies relating to finance gap in India and other Countries.

2.1 REVIEW OF LITERATURE ON PROBLEMS IN ACCESSING BANK FINANCE

The International Planning Team (1959)\textsuperscript{34}, Ford Foundation Team clearly brought out various handicaps and difficulties which the Small Scale Industries were encountering in India during their visit in 1954. The team laid great emphasis on the need for dealing with the problems of Small Scale Industries through establishment of development organization. The team recommended for addressing the problem not in a segmented manner but to treat all of them as a whole.

Suresh Chandra (1969)\textsuperscript{35}, aims to analyze the institutional finance including Commercial Banks. A comparatives analysis is being made with other countries. The study concludes that the total amount of bank credit available to this sector is inadequate in relation to its requirement of credit. The study is made based on the secondary data with high concentration on supply side of the major financial institutions and Commercial Banks forms only a part of the study.

Pareek (1978)\textsuperscript{36} evaluates the flow of bank credit to Small Scale Industries since the inception of the concept of social banking by Commercial Banks. The author finds that the banks have failed even to meet the working capital requirements especially in the developing state like Rajasthan, which warrants the bank to play a leading role. The author opines that two way traffic could deliver possible goods in the economy and suggests Small Scale Industrial units to lend maximum cooperation.

Prasad et al. (1978)\textsuperscript{37} reports, the role of SME’s in the developed countries, problems of Small Scale sector and procedure followed by banks in extending credit to entrepreneurs. The authors enumerate the role of SME’s in the developing countries of Western Europe, U.S, and Japan. The authors find that inadequate finance, market uncertainties, lack of technical knowhow and market uncertainties are key problems which Small Scale manufacturers are facing. Security oriented policy, lack of uniform procedure, variation in the interest rates and attitude on credit extension to new entrepreneurs by the bankers are some of the factors identified by the authors for problems in accessing timely and adequate finance by SMEs in India.

Mishra (1984)\textsuperscript{38} aims to analyze the nature of financing and role of various agencies including Commercial Banks in meeting the need of finance in North Bengal and to examine the problems faced by entrepreneurs. The researcher has considered the Commercial Banks as one of the agencies along with the other agency and it is based on the secondary source of information. More attention is given on demand side issues.

Subodhkumar (1990)\textsuperscript{39} the objective is to evaluate, analyze and examine polices framed and implement by Commercial Banks to the various sectors of the economy, including Small Scale industries. The study found that there is an improvement in the credit enhanced by the Commercial Banks. In this study researcher has considered the examination of policies framed and implemented by Commercial Banks to different sector and Small scale industries is only a part of it. Not much importance is given to the demand side issues and SSIs.

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\textsuperscript{38} Samar Kumar Mishra (1984), “Studies In the Nature and Problems of Financing of SSI in North Bengal”, Thesis submitted to North Bengal University, West Bengal
\textsuperscript{39} Subodh kumar (1990), “Sectoral deployment of bank credit in India”
Levy (1993) reports on the constraints confronting SMEs in Sri Lanka and Tanzania and draws some lessons for reforms to help in the development of an efficient indigenous private sector in developing countries. Firm level interviews were conducted in both the countries using interview survey approach to gather data. Financing constraints, regulatory constraints, constrains physical, technical and marketing inputs and cost constraints were identified as the major obstacle in developing indigenous SMEs. Furthermore, Brian finds that formal banks do not lend to the smallest firms in either country.

Patel (1994) examines the growth of Commercial Banks, to the modus operandi of priority sector lending. The author analyses the progress made by Commercial Banks and makes an in depth study of priority sector lending including SSI form 1983-1991. The study concentrates on SSI’s along with other priority sectors and the period of analysis ends at 1991.

Rudramurthy (1994) aims to analyze the trends and magnitude of financial assistance given to the SSI in Karnataka and to analyze the change in the attitude of financial institutions since 1967. The study found that institutional finance available to this sector is inadequate. Hence SSI should have access to new avenues of finance like mutual funds. In this study the supply side analysis is being made with respect to institutional finance and Commercial Banks are part of the study.

MariaInigo (1998) examines the factors which determine the pattern and size of bank loan to find out the problems faced by SSI borrowers. The study aims to find out the extent of utilization of bank loan, examine problems faced by banks in financing SSI’s, assess rate of recovery and performance of SSI units financed by banks and also to offer suggestions. The study concludes that SSI’s are not getting adequate working capital, assistance is inadequate and there is an inordinate delay.

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Uma (2001) attempts to evaluate the extent of credit flow to priority sector, especially to SSIs. The author also tries to assess the extent of utilization and extent of recovery, examine the impact of credit on employment and profits and to compare with unassisted units. The author has evaluated the supply side issues based on the secondary data.

Simpe (2002) attempts to establish factors that prevent SMEs from accessing funds from financial institutions and ways in overcoming such factors. The author finds that there is a funding problem for the SMEs in the Copper belt and the problem emanates from both SME’s and the financial institutions. Author suggests the Government to enact laws and put in place policies that are supportive to the sector.

Vimala (2003) analyzes the performance of different bank groups in their advances to SSI in the state of Kerala between 1993-94 to 2000-01. The author concludes that there is no significant difference between the performances of different bank groups in their SSI advances. The researcher has taken supply side evaluation in terms of performance in enhancing the credit to this sector.

Jhaveri (2003) focuses on the RBI assessment of lop sided distribution of credit, underlying reasons for it and stress on credit delivery. While analyzing interest rate debate, the author compares traditional concept of striking the right balance between a commercially viable and socially relevant banking industry highlighting the interest rate as per the price of determining the demand for credit. The author states that superlative profits on account of retail lending has resulted in little action with regard to lending to small business. Non availability of risk premium that is likely to compensate banker for high transaction cost, high risk, and high cost of monitoring, fear of NPA is seen as one of the reason for low or little lending to small industries.

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45 Ackson. C. Simpe (2002), “Funding problems of SME’s in the Copper belt”, Thesis submitted to Copper Belt University
VepaKamesam (2003) attempts to identify the major problems faced by Small Scale Industries in India and examines the various initiatives that are being taken by the Indian authorities against the backdrop of SME financing in a cross country perspective. The author finds that the availability of collateral free loans, cost of loans, delayed payments, marketing problems and sickness are the major problems faced by Small Scale Industrial sector in India and recommends for alternative mode of finance by Commercial Banks to this sector.

Narayan (2004) aims to analyze the determinants of competitiveness of India’s manufacturing Small Scale Industries in terms of quality and cost of infrastructure including credit. The analysis is based on random sample survey of 373 Small Sale Industries in Karnataka. The author concludes that considerable delay is experienced by Small Scale Industries in getting credit sanctioned from Bank and suggest for the elimination of delay to improve the competitiveness from the cost side.

PriyaBasu (2004) in her study identifies the constraints faced by SMEs in India and the need for a bank project that addresses financing constraints with innovative tools. Key among the constraints to SME growth and competitiveness is the problems they face in accessing adequate, timely financing on competitive terms. Furthermore, the article discusses the opportunities to banks in SME financing. Indian SME has a strong demand for term financing and banks financing currently available to SMEs of a shorter tenure.

Garba (2005) with a view of numerous problems faced by SMEs, conducted research work to come out with solutions as this paved way for banks to have more confidence in financing these SMEs efficiently. Data for the study was collected through structured questionnaire and personal interviews of all kinds of enterprises involved in production and services using random sampling collected data were analyzed using frequencies and percentages. In the light of the findings, the author made recommendations to Government Commercial Banks and SMEs.

Amitbhushan et al. (2005)\textsuperscript{52} in their study concentrate on the challenges faced by Small Scale Industries in getting credit and enumerate the committee recommendations on SME’s by banks. The study concludes that SMEs entry is easy but there is a little hope of survival, because life blood in the form of finance is too little, too late.

Anand (2005)\textsuperscript{53} evaluates the contribution of SME sector to Indian economy and as well as to the global environment. The author identifies the problems faced by Small Sector Industries and also reasons for low lending by banks and suggests different ways through which credit to SSI’s can be improved.

Sardesai (2006)\textsuperscript{54} evaluates the flow of credit to SSIs and growth of SSIs. The study identifies the large financial exclusion of SSI units and also regional disparities. The author also points out the need to address these issues and concludes that there is large scale financial exclusion. So, the author emphasises for the issue to be addressed. At the same time a study needs to be undertaken to examine the causes of exclusion and to address them suitably so that the SME sector comes under financial mainstream and becomes more vibrant.

Mohuaroy (2006)\textsuperscript{55} examines the changing face of bank lending in India by analyzing the annual data on sectorial deployment of credit relating to 47 select schedule Commercial Banks. The study focuses on trends in priority sector lending v/s retail sector. Through review of the trends, the author finds that credit off take by SSI has not responded very strongly to the initiatives taken by the policy makers. The author feels that declining share in overall credit continue to dominate this sector and banks do not find it profitable to lend SME sector as its record of NPA has been very discouraging.

Seshasayee (2006)\textsuperscript{56} provides a cross country perspective, with the main focus on difficulties in the area of financing and highlights the Indian scenario. Despite their


\textsuperscript{54} A.V. Sadesai(2006), “Credit to SME’s at Cross roads”, CAB Calling, July-Sept 2006


economic significance, SME’s face a number of bottleneck, low credit penetration and accessing desired finance. The author recommends the urgent need to regenerate SME financing as the need for finance is not only for asset creation and working capital but also for support in changing global environment.

**World Bank (2007)**[^57] study describes the main features of the supply side of SME financing by analyzing the perception of banks in Argentina and Chile regarding lending to SMEs. New and unique evidence from a significant number of banks in each country through on site interviews and questionnaire was collected for the study. The study finds that the SMEs segment is a strategic sector for most of the banks. Banks are focusing on SMEs because they perceive the market as highly profitable, large and prospects are optimistic however it was also found that banks have not fully adopted their business and risk models to reflect on the completing of the segment.

**Keshab Das (2008)**[^58] examines the performance of Small enterprises in India. The author finds that Indian SMEs continues to be hindered by basic constraint of poor credit availability, low level technology and inadequate basic infrastructure are some of the key reasons identified for dwindling access to loan finance by SME sector. The problem in accessing finance continues, despite of the efforts in the form of small industries policy, reforms implementations snags and complex and helpful procedural requirements

**Puttu Raj (2008)**[^59] attempts to identify the problems encountered by SME industrial units and there by suggests certain measures. It also studies the role played by financial agencies with reference to Commercial Banks. The research concentrates on supply side issues in accessing finance and suggests for future research which can make SME’s more attractive and viable.

**Vora (2008)**[^60] aims to analyze the trends of finances by nationalized banks towards Small Scale Industries, issues on grant of credit and bank wise allocation of credit

[^59]: Puttu Raj (2008), “Credit Facilities for SME’S – A Study Conducted at Guntur District
[^60]: Ashish. P. Vora(2008), "Impact of selected banking system on Small Scale Industries with special reference to Gujarat”, Thesis submitted to Saurashtra University
plan with special reference to Gujarat. The author analyses ten years data on flow of credit to this sector from 1997-2006. Analysis of the data reveals that there has been a high positive relationship between banks and growth of small scale industries.

Chandak (2009)\(^{61}\) analyses the flow of bank credit to SSIs and highlights the importance of trade credit to SSI. The flow of credit to SSI by Commercial Banks steadily declined in the post 1997 period. It was as low as 65% during financial year 2006-07. The study finds that trade credits are preferred by small and young firms who are unable to obtain any adequate finance from banks. Author suggest for an alternative source of credit.

Manzer et al. (2008)\(^{62}\) attempt to find out the major constraints faced by the SMEs in Bangladesh based on questionnaire survey. Seven major factors comprised of twelve variables working as impediments to SME’s growth and development were identified. Amongst which high lending rate, Government regulatory constraints, collateral requirements for financing and lack of collateral requirements for financing are on top.

Nagpal et al. (2009)\(^{63}\) highlights the role of SMEs in Indian economy and identifies the problems faced by the SMEs. The authors opined that the potentials of this sector is often not realized because of the problems commonly related to size, isolation, logistics and technology innovation. SMEs are exposed to some specific problems like collateral security, cost of loans, delayed payments, banks’ lending to SME’s marketing internal factors and reluctance of lending to SME’s by banks. The authors suggest SMEs to gear up to face the challenges of liberalization in coming years.

GhBakhas (2009)\(^{64}\) in his dissertation aims to provide qualitative evidence concerning the factors within supply and demand. The author also aims to evaluate the institutional support environment that hinder SME access to finance and as well the interventions necessary to improve the access to finance for SMEs in the North

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West province of South Africa. Dearth of entrepreneurs, highly risk over financial institutions and poorly functional support and development environment were some of the factors responsible for obstacles in SME access to finance.

Ghosal (2010)\textsuperscript{65} examines some of the specific challenges and impediments faced by Small and Medium Enterprises. The author opines that there is a need for the financial institutions to be aware of those issues while financing this sector. Author calls for a pragmatic model which would bridge the gap between the financial institutions and SMEs.

Chakrabarthi (2010)\textsuperscript{66} enumerates the dependency of Micro and Small Enterprises on bank finance for variety of purposes and call for a greater participation of banks in the affairs of the credit. The study finds that delayed/ inadequate availability of bank finance is one of the causes for failure in Micro, Small and Medium Enterprises. Author also quotes the existence of gap in the system and recommends for research to bridge this gap. He also suggests the banks to tone up their risk assessment and risk management capacities.

Irwin et al. (2010)\textsuperscript{67} investigate the barriers in raising bank finance by SMEs in U.K, specifically the influence of personal characteristics of an entrepreneur. Data for the study was collected using telephone survey of 400 SMEs which were chosen using stratified random sampling. The analysis of the data revealed that among the personal characteristics, education made the difference to source of finance.

Badulescee (2011)\textsuperscript{68} analyses the financing restrictions facing SMEs, the relationship between collateral, credit reuse bank behaviors and to analyses the bank requirements v/s customers’ expectations regarding SME financing. The author finds that banks are reluctant to grant loans to SMEs due to information asymmetry, usage of loan, high rise, insufficient collateral and high default rate.

\textsuperscript{65} Ghosal, SN (2010), “SME Financing is microfinance the Answer?” ICFAI Reader, Vol XIII, issue 1, Jan 2010, Pg. 35.
\textsuperscript{66} Dr. K.C. Chakrabarthy (2010), Deputy Governor, RBI, “Bank credit to MSME’s: Present status and way forward”, ISED at Kochi, 21st May 2010
\textsuperscript{67} Irwin D and Scott J.M (2010), “Barrier faced by SME’s in raising bank finance”, International Journal of Entrepreneurial Behavior and Research 16(3) pp. 245-259
Damji (2011) makes an attempt to identify the challenges before Small Scale Industries in India especially finance marketing and raw material related issues. The author finds that Small Scale Industries in India are not able to obtain finance as it cannot provide sufficient security. The author opines that the real finance does not exist between Banks and Small Scale Industries at all.

Fatoki et al. (2011) in their research, investigate empirically the constraints to credit access by new SMEs from Commercial Banks and trade creditors. For this purpose, an initial 52 item questionnaire was developed and data was analyzed using descriptive statistics, Factors Analysis T- Test and Pearson Correlation. The authors find that there are certain factors such as lack of collateral, lack of business information, lack of managerial competencies, bad macro economy, ethical behavior of SME owners and inefficient legal system are certain factors that constraints credit access to new SMEs.

John Ackah et al. (2011) identify the challenges faced by SMEs in obtaining credit in Ghana. The study aims to highlight the issues facing SMEs in their quest to access bank credit to undertake various activities. The quantitative approach was adopted, questionnaires were circulated to 80 SMEs selected through convenience sampling. Based on the responses received it was found that banks and financial institutions are willing to provide funds but SMEs are not able to meet the requirement. Those who are able to access this credit are also faced with high interest rates and short repayment period. The authors recommend for the establishment of factoring services and provision of tax incentives for banks that lend to SMEs.

Qureshi et al. (2011) have made an attempt to identify the core constraints in financing of SMEs in Karachi that impede their growth and even undermine their liquidity and financial position. The findings revealed that most of the Small and Medium Enterprises feel reluctant to borrow from banks and financial institutions, due to stringent collateral requirements lengthy documentary process and to some extent malpractices at banks and financial institutions.

World Bank (2011) had undertaken a joint survey to provide insights into the challenges of enhancing SME access to finance. The survey was developed and conducted jointly with the Union of Arab banks. Responses from a total of 139 banks from 16 countries were taken. The survey finds that the average share of SME is low and state banks still can play an important role in financing SMEs. The research also explores an opportunity of lending to SMEs and recommends policy makers to prioritize improvements in financial infrastructure including greater coverage and depth of credit bureaus, improvement in the collateral regime and increased competition between banks and also no bank.

Ghatak (2012) attempts to identify the problems faced by SMEs in accessing problems and main factors which act as the driver for the financing decisions. The author finds that banks are the main sources of finance for SMEs. Both small and large banks play a vital role in financing SMEs. Lack of business experience is the main obstacle in SME lending. Profit earning, availability of collateral, payment history, preparation of financial statements stages of development and feasibility of the proposed project are the factors which act as driver for the financing decisions.

Rana et al. (2012) in their study attempt to analyse the problems faced by SMEs in accessing finance from banks and also to identify the gap in SME financing by SBI in Patankot, Punjab. The study suggests the need and way of enhancement of credit to this sector by SBI. Though the concentration is on finance gap evaluation, it is restricted to the case study of one particular bank.

Siva (2012) posturizes the problems faced by the entrepreneurs of small scale industries with special reference to women entrepreneurs. The author finds that 46% has problem of financial crises while starting the enterprises and 56% of entrepreneurs feel that there is no proper assistance for getting finance.

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Umarji (2012)\textsuperscript{77} discusses the need for factoring services to SMEs which might solve liquidity and working capital problems faced by them. The study finds that there are large number of SMEs which do not have any credit facilities from banks in spite of banks’ lending to MSMEs as a part of directives to lend to priority sector.

Wahat et al. (2012)\textsuperscript{78} examine the financing practices of SMEs in Libya in two different phases of business life cycles, startups and maturity stages along with the issues in accessing bank loans by SMEs. Primary data were collected from the owners of SMEs through questionnaires. Using descriptive statistics, the author find that 82.9\% of SME’s use informal source of financing at startup, 17\% uses formal financing at startup stage. Only 25\% use the bank loan. One of the reasons identified for not applying for bank loan is that loans come with interest.

Bondneeto (2012)\textsuperscript{79} explores the challenges and barriers facing SME construction firms in Ghana in their quest to access finance from financial institutions for their business purpose. Author adopts a cross sectional survey to examine the challenges and barriers in two major cities of Ghana. A semi structure questionnaire was designed to gather information. Policy regulation inadequate financial structure, stringent collateral securing and lack of institutional capacity are identified as some of the key challenges were identified in the study.

Chakravarthi (2012)\textsuperscript{80} makes a brief review of the overall performance of MSME sector role of SIDBI in empowering SMEs and also identifies the problems faced by this sector in India. Data for this purpose has been collected both from primary and secondary sources. Author finds that SME’s still face the problem of timely and affordable credible and this sector is still neglected by banks and financial institutions inspite of it being mandatory to lend 40\% as priority sector.

\textsuperscript{78} Kalsom Abd wahat and Khalid Hassan Abd esamed(2012), “Small and Medium enterprises financing practice and accessing bank loan issues-the case of Libya”, World Academy of Science, Engineering and Technology 2012
\textsuperscript{80} Anand Chakravarthi (2012), “The Role of SIDBI in Developing the MSME’s in India”, International Conference on Technology and Business Management, March 2012
Rajib Lahiri (2012)\textsuperscript{81} makes an attempt to critically analyze the definitional aspect of SMEs and explores the opportunities enjoyed and constraints faced by them in the era of globalization. Annual average growth rate has been used as the major statistical tool to compare the performance of SMEs during the pre and post liberalization period. The study covers a period from 1973-74 to 2009-10 and identifies financing problems, extreme competition, poor technology, lack of infrastructure, delayed payment, gradual withdrawal of reservation policy and mind set as constraints faced by SME’s. Exposure to foreign markets, flow of foreign investments and technology, less government interventions better performance and better industrial relations are some of the opportunities.

Sudha et al. (2012)\textsuperscript{82} in their research article highlight the importance and contribution of SMEs to the Indian economy and also identify the challenges faced by SME’s. The study finds that the availability of timely credit and high cost of credit are the major challenges faced by SMEs in India and Government initiatives are not adequate enough to solve the problems of this sector.

Suganthi et al. (2013)\textsuperscript{83} analyse the constraints encountered by MSMEs by an empirical research based on survey of SMEs in Theni district in Tamil Nadu. Data was collected with the help of a pre-determined and structured interview schedule on the basis of Likert five point scaling technique. The research result indicated that finance and marketing are two important problems that affect MSME’s in the study area and suggest for different set of policies and the promotional measures to support entrepreneurship development.

CII (2013)\textsuperscript{84} makes an attempt to document the various schemes and new financing methods available for MSMEs and provide them with a roadmap form optional use. CII reports alternative financing options available to SMEs at affordable cost. The study finds that non-availability of adequate and timely credit, high cost of credit collateral requirement and limited access to equity capital are some of the financing related challenges faced by Indian SMEs.

Lakshmi (2013)\textsuperscript{85} in her study on “The Performance of SSI’s in India” attempts to identify the problems faced by the Small Scale Industries India. The study is based on the secondary source of information. Inadequate credit assistance, problems of skilled manpower, irregular supply of raw materials is some of the major problems identified and author recommends for creation of suitable environment for production and marketing of services of small scale sector.

Bose (2013)\textsuperscript{86} makes an attempt to study the need for greater attention on the financing requirement of SME sector at different stages of their life cycle and also key challenges faced by SME sector in obtaining bank finance. The author makes a descriptive study and identifies lack of transparency, reliability of data, lack of transparency, reliability of data, lack of financial discipline, inability to provide sound financial track record and information asymmetry as the key challenge and suggest for setting up of Credit Information Bureau to strengthen the credit information that can enhance the confidence of lending institutions in extending the credit to SMEs.

Harvie Sothiacum (2013)\textsuperscript{87} sheds light on the issues of SME financing in selected Asian economies using a unique sample survey. Data for this study was generated by means of structured questionnaire survey of SMEs conducted in eight Asian countries. The questionnaire aimed to collect information on SME characteristics, sources and usage of finance. The author through study confirms that a significant number of SMEs are heavily reliant on internal funding resources and external finance which is potentially important remains beyond the reach of many. They find that SMEs operating in the less developed countries are financially constrained.

Musa et al. (2013)\textsuperscript{88} evaluate the challenges faced by SMEs in financing new or existing business in Nigeria. Authors adopt exploratory method for the study and data was collected form 65 SMEs through questionnaires. Collected data were analyzed using SPSS package. The result of the analysis revealed that there is no significant difference in the difficulties faced by SMEs while accessing finance from various

sources and the authors recommend for intervention of Government policy to ease the flow of credit to this sector.

**Raghavalu (2013)**\(^8\) attempts to know the status of Micro, Small and Medium Enterprises both in India and Karnataka. The study also aims to identify the problems and prospects of Micro, Small and Medium Enterprises in Bellary district of Karnataka. Author identifies various problems faced by the sector through field survey using structured schedule. The survey results indicate that 74% of the total selected units are facing financial problems to meet the working capital, resulting in very low production and productivity. The author recommends framing suitable policies and programmes to solve the problem.

**Domeher et al. (2014)**\(^9\), aim to provide various dimensions of credit constraint problem in Ghana. The quantitative methodology was adopted in the conduct of research. SMEs were selected randomly and the data collected was coded and entered in to SPSS and analyze descriptively. The study found a high level of constraint amongst participants who reported no credit actively, cost of credit and lack of tailor made products. Finally the credit constraints encountered by SMEs in this study entirely emanates from supply side barriers; the demand side is almost non-existent. Hence, policy for enhancing credit should be focused on the supply side.

**Dada et al. (2014)**\(^1\) have assessed the effect of commercial bank credit to SME’s development in Nigeria and finds that commercial bank credit to SME’s exerts a positive influence on the development of SMEs. Authors recommend monetary authorities to mandate the banks to increase their credit, accessibility and encourage banks to lend to this sector by providing guaranties, interest rate subsidies and other incentives.

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2.2 REVIEW OF LITERATURE ON FINANCE GAP IN INDIA AND FOREIGN COUNTRIES

Singhania (1998)\textsuperscript{92} examines the flow of bank credit to Small Scale Industries in India and also evaluates the impact of various packages of measures announced by RBI. The author finds that the actual flow of assistance under working capital during five year period 1991-92 to 1995-96 fell short of the requirement lay down by the Nayak Committee. An analysis of the bank credit made available to the SSI sector in last ten years reveal that in 1995-96, there is a decline in the credit flow to the SSI sector. Author opined that in a significant number of cases, bank branches have departed from the guidelines subjecting to SSIs and suggest for rethinking on the part of Government, Commercial Banks and SFCs to address the big gap between the demand and supply of working capital and term loans.

Paul (2001)\textsuperscript{93} examines the research on finance and Small Medium Enterprises sector in developing countries. The author argues that theoretical insights into this field have largely been confined to the studies undertaken in US and UK. In developing countries research on both supply and demand for finance in relation SMEs has been empirically based and has been pre-occupied with gathering information on characteristics of SMEs rather than testing theoretical propositions that would improve understanding of the relationship between finance and SMEs. The author stresses the need for research on the supply side of finance.

Jonathan et al. (2003)\textsuperscript{94} examine the ways of addressing finance gap for small firms by means of Government policy. A review of both the finance and Government policy literature provides the basis for discussing and conceptualizing the financing difficulties faced by small firms and the results suggest that a debt finance gap which may exists for firms can be addressed by categories of policy actions that emerge from the study. One such policy action is adoption of quasi commercial attitude by banks in lending to small firms.


\textsuperscript{93}Paul Cook (2001), “Finance and SMEs in Developing countries”, Journal of Developmental Entrepreneurship”, April 2001: 6, No.1, Pg. 17

Shilpa Kulkarni (2004) examines the relationship between growth of small scale industries and supply of bank credit and also the expectations of the small scale industries as perceived by the banks. Author makes an attempt to identify the various constraints associated with credit supply. Field survey of stakeholders reveals that the supply of institutional credit is too less and often delayed and Small Scale Industries have many other expectations from bank. The study has limited application of quantitative techniques for the analysis and sample size for the field survey was very small.

Gray (2005) seeks to gain understanding of the applicability development finance interventions to the SME operating requirements in Sub Saharan Africa. The study aims to identify the financial needs and requirement of suitable finance for SMEs and also the impact of lack of suitable finance as a key bottleneck to SMEs growth. The author recommends Foreign Development Financial Institutional interventions to help financial intermediaries to improve risk assessment capabilities and create a more proactive financial sector and to reduce the finance gap.

Ajlouni et al. (2006) in their study examine the extent of finance gap among SMEs and the nature of gap. The authors find that debt gap exists in Jordan and the cause for it lies in the non-availability of debt finance but it is the SMEs which do not want to access loans from financial institutions. The study finds that 75% of banks do not finance SMEs because they deal with big corporations. It was also found that there are various issue that the need to be addressed to solve the problems of information gap. Authors suggest for need for change in bank credit policy to address the problems of finance gap.

OECD (2006) the objective of the study is to ascertain the extent of SME financing gap and to know difficulties faced by SMEs to borrow from banks in OECD countries. It is concluded that SMEs do not generally have a problem in obtaining

95 Shilpa Sachin Kulkarni (2004), “Strengthening Of Credit Flow To SSI Sector In India”, National Insurance Academy
bank loan since banks perceive SME finance as an attractive line of business and are developing or have developed effective techniques to deal with them.

OECD (2006)\textsuperscript{99} in its study on SME finance gap, identifies both weak demand from SMEs and limitation in supply of funds as the indicative of gap. The responsibility is attached to both the financial sector as suppliers of funds and SMEs as the demanders of the fund. Asymmetric information, relationship, performance of SMEs and conservative nature of the financial markets are some of the reasons for finance gap identified in OECD countries.

Thiam (2007)\textsuperscript{100} attempts to diagnose the barriers to SME development highlighting financial constraint. The study was undertaken by taking in to consideration entrepreneurs, financial service providers and Government. Data was collected through semi structured interviews. Seven people from major banks in West Africa and one from Micro financial institution were chosen for the study. The author opines that Bank decision to lend money to SMEs are made based on the relationship of banks with the owner and owners have to bring collateral to access loans from banks,

CIEM (2007)\textsuperscript{101} attempts to investigate the significance of and obstacles to SME’s access to formal finance. Questionnaire survey was employed to extract the views of Commercial Banks and SMEs on those issues, specifically to identify the impediments to SME access to formal finance. The study finds that lack of collateral, costly information gathering; high administration costs and less reliable projects are the key obstacles to SME’s access to finance and recommend both banks and Government to facilitate SME’s access to formal finance.

JuliusKakuree (2008)\textsuperscript{102} aim to explore the experiences of Bank officers and SME borrower in credit extension to the SME sector in Uganda. The study used a triangulation of qualitative and quantitative research methodologies to examine the experiences of loan officers and SME borrowers in relation to factors that influence credit flow to SME sector. Data was collected both from supply side and demand side

\textsuperscript{100} Ibrahima Thiam (2007), “Unlocking the Potential of Small and Medium Sized Enterprises in West Africa: A Path for reforms and Action”, dspace.mit.edu  
through structured and semi-structured interviews and also through direct observation. Data was analysed using Factor Analysis, Multi Co Linearity Analysis, Spearman’s Rank Correlation Analysis and NVIVO software. The researcher recommends designing lending guidelines that integrate both supply and demand factors.

**Watson et al. (2008)**\(^{103}\) purpose was to investigate both supply and demand issue for female and male owners in Australia. The authors sought to explore evidence of finance gap and discrimination of bank financing to female owners. The researchers found that there was no evidence to suggest that a supply side finance gap exists.

**Johanson et al. (2009)**\(^{104}\) evaluate and describe the finance gap as a relational concept by focusing on the perspectives of both small business and banks. The most common source of funding for small business is bank loan and 31% of Swedish companies have financial problems and half of these is to access bank loan. On the basis of the study the authors have developed an interactive model for understanding finance gap in Sweden.

**SME access to finance 2009 survey**\(^{105}\) focus is on the variations in the credit conditions in supply of SME finance and constraints faced by Small Business in Scotland, by analyzing the reasons for finance gap. The survey finds that although the majority of firms are able to access the finance they need, there is a significant increase in the position of the firms that are rejected for finance. The study finds that there is an increase in the gap of un-met demand and highlights the need for analyzing lending practices of the banks.

**Rana et al. (2012)**\(^{106}\) attempt to study the problems faced by SMEs in accessing finance from banks and also to identify the gap in SME financing by SBI in Patankot, Punjab. The study suggests the need and the way of enhancement of credit to this sector by SBI. Though the concentration is on finance gap evaluation, it is restricted to case study of one particular bank.

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Newcastle Business School, (2012)\textsuperscript{107} the aim of the research was to gain insight and understanding of the challenges faced not only by the SME sector but also the key suppliers of finance to that community specifically banking sector and business angels. Data was collected through interview and questionnaires. Questions were framed based on 39 themes on portfolio, credit decision making process, attitudes and perception of SMEs behavior. Experiences of SMEs were collected from 119 enterprises and 51 responses from bank side. It was found that, many of the banks have adopted new strategies in the current economic climate in order to support SMEs.

Manivone Siharath (2012)\textsuperscript{108} the objective of the study is to consider the factors impeding both the demand and supply side SME operations in relation to their financial practices and to find out how the banking can best be strengthened in order to overcome the issue of insufficient funding for SMEs. The research process comprised of a three part process. Series of interviews with Government, Banks and SMEs were conducted by taking 5 Banks (2 State- owned, 1 locally owned and 2 foreign banks), 3 SME stakeholders and 4 stakeholders as sample size. Indepth interview was based on a semi structured panel of open ended questions were adopted and note taking method was used. The researcher suggests for Government subsidies and policies to enhance credit to SME sector.

Chowdhury (2012)\textsuperscript{109} examines the problems faced by SMEs in obtaining loans from financial institutions and analyses the gap between supply and demand sides to formulate recommendations for effective SME financing policy implementations. On the basis of the questionnaire survey, the author has identified several important problems in SME finance raised by demand side and responses of the supply side on those problems. In order to minimize the SME financing gap and reduce the problems, the author recommends for the reduction of interest rates, provide collateral free loan and managerial capacities.

\textsuperscript{107} New Business School, (2012), “SME Access To Finance-An Exploration in To the Demand and Supply Constraints around SME Access to Fiancé”, North Umbria University
\textsuperscript{108} ManivoneSiharath (2012), “Potential Best Practices For Improving The Access to Development Finance By SME’s in LAO PDR”,unitec.researchbank.ac.nz
SamAhinful (2012) investigates the problems of SME finance from both SMEs and bank perspectives. The study aims to identify and discuss different financial constraints perceived by SMEs in the banking system and to evaluate the financial constraints factors that limit SMEs access to bank credit. The study revealed that lack of collateral and unattractive business plans are some of the key factors for unsuccessful loan application.

Aldaba (2012) analyses SME access to finance from the perspective of SMEs and Banks. Limited acceptable collateral, inadequate financial statements and business plans were some of the factors responsible for finance gap from SME perspective and poor credit history, insufficient cash flow and poor business plans were the key reasons for turning down SME’s financial request.

Silvestru (2012) aims to analyze the gap between demand and supply of bank credit to SMEs in Romania. It combines SME’s supply and demand to offer a gap research and finds that access to bank credit remains problematic due to lending decisions of banks and suggests for promoting solutions to reduce this gap by policymakers.

Shigehiro Shinozake (2012) discusses a new regime of SME finance with empirical analysis of bank financing for SMEs in select Asian countries. The study focuses on the SMEs financial access, impact of external financing on SME growth, supply demand gap in SME finance, measurement of SME finance gap and bank lending efficiencies. The study finds that lack of collateral brief or nonexistent business records, fragile financial and management systems and uncertainty of profitability are some of the key barriers to access bank finance. It was also found that low access to finance negatively affect the survival and growth rate in general.

Ramlal et al. (2013) aims to discuss financing lacuna in Malaysian SMEs focusing on the supply side. It also highlights some of the policy responses adopted by the

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114 Shamsaubaridah Ramial and Berma, "Financing gap in Malaysian SMEs – a supply side perspective”. SAJEMs special issue 16 2013: 115-126
government to address the demand and supply side constraints faced by SMEs and supplier of credit. The environment that influence the supply of funds to SMEs. The study is based on literature review.

**Daniel et al. (2014)**\(^{115}\) provide various dimensions of credit constraints problem in Ghana by analyses both supply and demand side of SME finance. The authors conclude that credit constraint encountered by SMEs in the study area entirely emanates from supply side barriers, where the demand side is almost nonexistent. Hence policy for enhancing credit should be focused on the supply side.

**Quaye et al. (2014)**\(^{116}\) aim to explore the finance gap with regard to SME finance in Ghana. The authors have employed field survey method to collect data from SMEs. The authors find that traditional financial institutions have considered SME sector to be unattractive and non-bankable due to their perceived high risks and therefore SMEs are often denied access to credit. The authors suggest for making financial system more accessible. One of the root causes for SME finance gap identified in the study is Lemon gap which is the difference between true and perceived risk.

**CONCLUSION**

Thus, the above literature review shows various endeavor undertaken to analyse the problems of Small and Medium Enterprise’s access to finance from the Commercial Banks and other formal Financial Institutions. It is seen that, analysing and addressing the finance gap is highly discussed subject in foreign countries, but only few deliberations has been made to identify the finance gap in India. The term finance gap is not a popular term in India. Through literature review, it is found that there are many studies undertaken to identify the problems in accessing finance by SMEs either from the perspective of enterprises or from the perspective of the Financial Institutions including Commercial Banks. Majority of these literatures concentrates on the demand side issues and very few on supply side issues. Much literature is based on the secondary source of information. It is also found that not many deliberations have happened in India after the enactment of MSMED Act and also with reference to the concept of finance gap.
