Chapter-II

Review of Literature
# CHAPTER -II
## REVIEW OF LITERATURE

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CHAPTER- II
REVIEW OF LITERATURE

Review of the earlier studies and experience of past research works are of gigantic help in evaluating the soundness of concept used and the methodology followed. Therefore, in this section an attempt is made to outline the various concepts used and the conclusions made in earlier related studies.

The researcher made an elaborate review of those studies as well as the relation to similar financial institutions lending to small scale industries. The most important concept used and inferences drawn in those studies which are relevant to the present study are noted in this section.

2.1. PREVIOUS STUDIES RELATING TO THE STUDY

Bassey, Nsikan Edet et al., (2014), studied about impact of bank lending and macroeconomic policy on the growth of small scale enterprises in Nigeria which is a developing economy in the world. In this study the researchers employed time series data obtained from the central bank of Nigeria for the period of 1992 to 2011. The data was first examined for unit roots using the Augmented Dickey Fuller (ADF) with view to ascertaining their stationary. Result revealed that all the variables were stationary at first difference except government expenditure. Empirical findings further revealed that Commercial bank credit finance and industrial capacity utilization exerted significant positive impact on the growth of Small Scale Enterprises. Also, while exchange rate had a significant negative effect on the growth of Small Scale Enterprises, surprisingly, government expenditure and interest rate charged by banks fails to explain the variation in the growth of Small Scale Enterprises in the period under investigation. This informed
the need to pursue policies that would ensure access to short, medium and long-term bank credit finance at concessional interest rate and less stringent conditions, ensure proper funding of the sector by government, enhance the install capacity utilization rates of manufacturing sector and reduce exchange and interest rates as the way out.

Ben-Caleb. Egbide et.al., (2013)² studied about the role of Small and Medium Scale Enterprises (SMEs) in the economic development of any nation cannot be down played. In Nigeria for instance, it is reported that SMEs represents about 95% of all enterprises. This statistic is a pointer to the expected contribution of this segment to the economy. Unfortunately, a myriad of problems have strangulated SMEs from performing as expected. While some of the problems are self-inflicted, a high proportion is external, arousing a cry for the empowerment of SMEs to enhance its performance. This study, preoccupation is to establish the fact that empowering SMEs in Nigeria is a key poverty alleviation strategy. The study finds out that the major problems plaguing SMEs are; inadequate capital, poor infrastructural facilities, inability to access funds from financial institutions due to stringent conditionality, ignorance of the available sources of finance and lack of management and skill support. It therefore concludes that if these major areas are adequately addressed, our SMEs will be translated into active economic sector, fully empowered to significantly contribute to the achievement of the Millennium Development Goal (MDG) of eradication of poverty and hunger in Nigeria and by extension Africa.
Binod Chandra Swargiary (2012) mentioned that Finance, which is rightly described as the life blood of industry, is a pre-requisite for the mobilization of the real sources for organizing production, balance industrial development, generation of employment and economic development of the region. Finance is needed at the time of setting up of the industrial unit, expansion, modernization, diversification and running of the industrial unit. The balance industrial development without ensuring the provision of adequate and timely finance is not possible. North Eastern Development Finance Corporation Ltd (NEDFCL) established to provide financial assistance to micro, small, medium and large enterprises for setting up industrial, infrastructure and agro-allied projects in the North Eastern Region of India and also Microfinance through MFI/NGOs. This study tried to present an alarming feature of NEDFCL, that the term sanctions recorded a considerable progress, the degree of the increases in disbursements was less pronounced. Further the study highlights the increasing gap between the sanctioning and disbursement of loans which reduces the utility of assistance because; the applicant (borrowers) may not get the required help at right time. If it would continue in future then the objectives and the commitment they made at the time of establishment of corporation may not turn into reality.

Dhas (2002), in his study on "A study on the role of SSI units in the Economic development of Virudhunagar District", states that objectives of the study are to analyze both block wise and industry wise trend and growth of unit registered, investment made, employment and production for developed and backward area. The contribution of SSI units to the development of blocks in both the developed and backward areas in terms of the seven identified growth factors is
impressive. The contribution of SSI units to the economic development of the district in terms of utilization of raw material, employment generation, asset creation and forex earning is not only significant but also unique. Thus it may be concluded that despite various short comings and problems, the SSI units in Virudhunagar District has played a vital role in the promotion of the economic development of the district.

Ganesan. S and Navaneethakrishnan. K, (2006) studied that Financing of Small and Medium Enterprises, Indian banks and Financial institutions catering to the SME sector will have to focus more on providing marketing finance, venture capital micro finance and factoring assistance at reasonable costs to make SMEs domestically and globally competitive.

Jaskaran Singh and Davinder Singh (2014), studied about the problems related to the financing of small firms in India. In this paper they noticed that the MSMEs complement large industries as ancillary units and contribute enormously to the socioeconomic development of the country. However, MSME’s contribution is phenomenal in the growth of Indian economy, simultaneously; they are facing intense pressure and constraints to sustain their competitiveness in a globalised world. Like this some other issues such as the recession, low demand, finance, heavy competition from MNCs etc also pointed out in the paper. They conclude as the MSMEs depended much of their initial capital on internal sources as they have accessibility problems in getting external debt or equity financing. Even if they are offered with debts, they will be charged with high rates of interest as smaller enterprises are perceived to be more risky and more likely to fail than larger firms are. This problem is shared by the MSMEs around the world,
irrespective of the differences in the countries’ financial infrastructure. Further they add about the factor affecting financial management of MSMEs. The study found four key issues under financial management. These include Shortage of own financial resources for innovation, Difficulty in access to finance via bank loans, Government subsidies etc., Slow process for loan applications, Lack of Government policies like subsidies, relief in taxes etc. Effective management of these issues can lead to the better performance of MSMEs in the competitive environment faced by them.

Jesmin, Rubayat (2009), point out that there has emerged a greater interest in understanding firms’ access to finance and the financing of small scale industries (SSI units) in particular. Various studies have indicated that one of the major obstacles for the formation and development of SSI units is related with the SSI units access to financing. The industrial units belonging to the SSI units sector, many of which are having liquidity problems, are finding it difficult to possess the equity needed even to run the day-to-day business. Commercial lenders, on the other hand, having experience - and are still battling with – the effects of "non-performing loans", are cautious in providing loans particularly to the SSI units

Therefore, in Bangladesh, the SSI units face difficulties having access to financial facilities and typically rely on their own savings and loans from friends and relatives, especially during the start-up phase. Further in this paper the researcher examined the issues involved and the options related to the financing of SSI units in the country. In this study the researcher explored to provide an understanding of the present financing environment, various financing mechanisms and experiences in the country. Subsequent to this, practical suggestions and options are presented on the ways whereby certain financing mechanisms and
supports can promote greater access to financial services and efficient use of funds provided. The issue of financing the SSI UNITSs is probably the most talked about one, but compared to the demand, very less has so far been done in this area.

Kadakol A.M, (2007)\textsuperscript{8}, studied "An Analysis of the policy measures initiated by the government of India to promote the small scale industrial sector" the Government is trying hard to see that a national consensus is formed by discussions with all the political parties. Now it has reached a stage where the Economic Reforms, including the industrial policy reforms, are irreversible. The Government, time and again, has reiterated that the fundamental objectives of the Economic Reforms, including the industrial policy reform process are to bring about rapid and sustained improvement in the quality of life of the people of the country.

Murugasean P (1997)\textsuperscript{9} in his study on "A study of SSI UNITS in Madurai District," has concluded that it is to be appreciated that, in spite of various problems, the SSI units in India are registered satisfactory performance. Their contribution to national economy is considerable and beneficial. In terms of labour employment, they carry a significant and major responsibility.

Moses Oppong et.al., (2014)\textsuperscript{10} studied about Micro and Small Scale enterprises development in Ghana. They mentioned that Micro and small scale enterprises have been accepted worldwide as instrument of economic growth and development. No wonder that government, particularly in the developing countries has made tremendous efforts and establish policies to enhance the capacity of micro and small scale enterprises (MSEs). However, despite government institutional and policies support to enhancing the capacity of small and medium scale enterprises, small and medium scale enterprises has fallen short of
expectations. This, then, generated serious concern and skepticism on whether SMEs can bring about economic growth and national developments in Ghana. SMEs are faced with significant challenges that compromise their ability to function and to contribute optimally to the economy. Most business enterprises in Ghana by classification are grouped under micro and small scale enterprises, hence, the scope of study. The phenomenal growth of small and medium enterprise in Ghana is mainly due to the people’s quest to be self-employed and not because it is easy to establish or manage. Most importantly this study noticed that financial constraints and lack of management skill hamper the efficient performance of micro and small scale enterprises in Ghana. In view of this, we recommend that government and other non-governmental organization should regularly organize seminars for potential and actual small and medium enterprise operators on how to plan, organize, direct and control their businesses, and that micro, small and medium enterprises operators’ should device effective marketing strategies and good management customers relations at all times.

Musa Garba Gulani and Aisha Usman (2013)\textsuperscript{11} evaluated in a paper titled Financing small and medium scale enterprises- a challenge for entrepreneurial development in Gombe state, at Nigeria, the challenges Small and Medium Scale Enterprises (SMEs) face in financing new or existing businesses in Gombe State. The population of the study consists of all SMEs operating in Gombe State. However, the study adopted purposive and simple random sampling techniques to draw the sample from the population. SMEs were then randomly drawn from three local government areas; namely, Akko, Dukku and Gombe. Out of 90 questionnaires distributed, 65 were returned and analyzed using chi-square method. The result of the analysis revealed that there is no
significant difference in the difficulties SMEs face when accessing finance from various sources, there is a significant difference in the level of awareness of MFIs by SMEs. The research however, recommends that government policy of initiating various intervention funds for entrepreneurial development should be encouraged; SMEs in the state should be sensitized on the activities of Micro Finance Institutions (MFIs).

Namasivayam. N and Ganesan. S (2007)\textsuperscript{12}, in their article on "Financing of small-Scale industries by Banks", assert that the commercial banks have played a significant role in supporting the SSI units movement in India. They have continuously been evolving special schemes and approaches to suit the rapidly growing and changing needs of the sector.

Neelamegam.R (1981)\textsuperscript{13} in his study on "A study of institutional finance to SSI units with special reference to Tamilnadu". has concluded with the suggestion that there must be two separate independent and autonomous apex Financial institutions one for large and medium SI and another for SSI UNITS with their constituent institutions, specializing in clearly demarcated are of operational in relation to the industrial sectors they cover, to facilitate and assure adequate and proper flow of institutional finance to industries as a whole and particularly to SSI units.

Nishanth and Zakkariya (2014)\textsuperscript{14} pointed out in their research paper as worldwide, Micro, Small and Medium Enterprises (MSMEs) have been accepted as an engine of economic growth and for promoting equitable development. In developing countries Micro, Small and Medium Enterprises sector constitute an important part in its development. In spite of this importance, this sector face number of constraints likes absence of adequate and timely supply of bank finance,
difficulties in procuring raw materials, marketing and distribution challenges and non-availability of suitable technology. The researcher found in their review as that there exist problem in accessing finance by the MSMEs from banks and financial institutions and this problem differ from region to region, between sectors or between individual enterprises within a sector. In this study they tried to identify the various barriers faced by these MSME units in raising finance and also try to identify the various sources of finance other than banks. The study is based upon the primary data collected from the 200 MSME owners in Kozhikode district of Kerala and collected data were analyzed using percentage analysis. The study found that around 64 percent of the MSMEs has not availed the credit scheme offered by the banks because of too many formalities insisted by the banks concerned. Further study found that delay in disbursement, banker’s non cooperative attitude is the main barriers to access the credit from banks for the MSMEs.

Prakash Yadava (2014) studied about role of SIDBI in development of small scale units in Lucknow city in the paper titled, a study on SIDBI’s direct Finance Scheme for Small Scale Units in Lucknow City. In this paper Prakash Yadava evaluated the direct financing promotional and developmental activities of SIDBI and impact of direct finance on the development of small scale industries in Lucknow city. For this purposes the researcher selected 80 SSI units in Lucknow city and required data has been collected from them using structured questionnaire and collected data has analyzed using frequency analysis and chi-square test. The study reveals that among the selected respondents 21 percent respondents are availed direct finance schemes of SIDBI and 59 percent of respondents were not aware about direct finance schemes of SIDBI. Further the study point out that 76
percent SSI units were dissatisfied by the direct finance scheme of SIDBI in Lucknow city.

Prasad C.S (2006)\textsuperscript{16} in his article titled Micro, Small and Medium Enterprises Financing in India-Issues and Concerns, pointed out that the development of an efficient MSME lending environment requires that economic agents involved i.e. the lenders and borrowers should receive incentives to make correct economic choices. For this, they must have the relevant information needed to make such decisions. Available evidence suggests that in the case of lending to even larger small enterprises, these requirements are not always met. In a market led economy, in the presence of information asymmetries, prospective lenders may not be able to correctly appraise true value of the project proposals. The protection of creditors’ right is of particular importance in the case of bank finance. At the same time, government intervention is required for micro enterprises and smaller among small enterprises. Since in the normal commercial operation of the commercial banks, there is practically not much scope for this category of enterprises. This calls for a proper mix of policy support for lower segment and demand supply based credit policy for upper segment of MSME sector. In the context of jobless growth in formal sector, such a mix is necessary. Banks should also diverse the loan portfolio from existing production loan to include technology loan, marketing loan and cluster development loan. Some innovative instruments should be tried to bridge the financing gap. The task of financing MSMEs is challenging but not unachievable. The sector needs proper attention since it has the potential to generate large scale employment and also emerge as the engine of growth.
Ramasamy .T, (2003)\textsuperscript{17} in his study on "SSI units in Virudhunagar district: An Empirical study of their growth and diversification" has studied the extent of growth of SSI units and the diversification of the same in Virudhunagar district. He has studied the factors influencing the growth of the SSI units and the diversification of the same in Virudhunagar district, to offer suggestions. He has concluded that the present study has been undertaken to help the planners, decision makers and the agencies implementing the poverty alleviation programme to take certain policy decisions for the development of SSI units. It is interesting to note that the study has brought to light certain latest problems faced by the SSI units in Virudhunagar district. The suggestions offered in the study may be suitably incorporated by the government in their policy framework to share the problems of SSI units.

Ramana Reddy, Krishna Reddy. B and Maddileti. K, (2006)\textsuperscript{18} in their article "Impact of APSFC on Small Industry Development" say that the State Financial Corporation constitutes an important policy instrument in fortuning the development of small industry in backward areas. This paper has developed an appropriate methodology in estimating units, employment and investment due to credit deployment and analyzed their nature and pattern. It also studied the role of SFC in providing entrepreneurship development.

Ram Jass Yadav (2013)\textsuperscript{19} has undergone a research project in terms of assistance given by IIBF, in the titled Issues in SME Financing. For this study, the researcher collected primary data from 257 bankers and 110 entrepreneurs across the country that was selected using random sampling method. Besides the secondary data from banks around 80 in numbers were taken into sample from the period of 1999-2000 to 2010-11. The study noted that most of the SMEs being
driven as family business and first generation entrepreneurs do not have proper succession planning to take over the business which later on ends with family conflicts. They do not have strong capital base and also no adequate collaterals etc., which posed major problems for bankability of their firms. The researcher concludes as the credit acceleration in the sector had significantly noticed absolute growth but proportion of MSE credit in net bank credit has been more or less at same level of 14 % which was way back in year 2000 despite widening the coverage of the MSE sector. But the analysis if this study has indicated that real growth in finance to MSE sector is not adequate in light of significant contribution to the economy.

Ravi and Avinash Roy (2014) focused on realizing the importance of small businesses as the engine of growth in the Indian economy. They examined the contributions of micro-financing to the survival of MSEs in India and examined the effects of micro-financing on growth, expansion capacity and productivity of MSEs operators in India. For this purposes 169 approved microfinance bank (MFB) were selected and in total 623 questionnaires were distributed. Further the study found that the survival of micro small and medium enterprises depends largely on whether the enterprises are able to generate profit from the use of micro funds and easy access to micro credit. The study suggests that enterprises supported by MFBs should be linked up with larger financing windows like the SMEEIS fund or Strategic Partners. The linkages should be such that the entrepreneurs would be serviced through their MFBs based on social capital. This will enable MFBs to introduce loan products and strategies targeted at financing technology acquisition by MSMEs. MFBs should increase the duration of their clients' asset loans, or spread the repayment over a longer period of time,
or increase the moratorium. This will enable the clients to have greater use of the loan over a longer period for the acquisition of capital assets and technology.

Srinivas (2013)\textsuperscript{21} studied about financial assistance to small and medium enterprises by KSFC. In this study the researcher mentioned that Karnataka State Finance Corporation (KSFC) is one of the fast track term lending financial institutions in the country with assistance to over 1,66,726 units amounting to nearly Rs 12,226.27 crore over the last 54 years in the State of Karnataka. Further in the study researcher made an attempt to study the total investments and number of enterprises promoted by KSFC in the state of Karnataka for the period of eight years. Researcher found that from last eight years KSFC promoted 11,183 units or enterprises with an investment of Rs. 4,798.62 crores. Along with the work of KSFC is commendable in promotion of enterprises for the growth of economic development.

Sethuraman. T.V, (1970)\textsuperscript{22} studied on institutional finance of economic development in India, reveals that there is lack of co-operation among different Financial institutions. Different financial institutions follow different patterns of processing techniques for availing financial assistance; the entrepreneurs have to bear increased cost in the form of additional expenditure being incurred separately towards application fee and legal charges.

Sekar. P (1999)\textsuperscript{23}, in his study on "Institutional finance to SSI units in Tamilnadu" the major objectives of the research are to assess the growth of SSI units in Tamilnadu, to examine the contributions made by the various agencies in providing financial assistance to SSI units, to study the flow of audit, to identify the problems of financial institutions in assisting SSI units. His findings show that
the State Bank of India, its subsidiaries and the nationalized commercial banks are
the major sources of institutional credit for working capital.

Somasundaram.G and C.Muniramappa,(2005)\textsuperscript{24} in their article on
"Commercial bank and SSI units Finance" have pointed out the steady decline in
the share of priority sectors. The total credit due to the commercial banks negative
attitude explained the following reasons for this short of attitude.

Sivasankar.P.R. and Ekambaram.K, (2006)\textsuperscript{25} noted the Role of Public
Sector Banks in the development of Small Scale Sector in India. Financing,
Promoting and development of Small-Scale Industries including Village and
Cottage Industries (SSTs) have been a specific focus on India's economic policies
since independence. The country has made many special dispensations and created
a network of financing and support infrastructure to nurture SSI units. Further,
from time to time, expert committees have been constituted to analyze the flow of
credit to SSI units and suggest appropriate measures to enlarge and accelerate the
credit flow to this sector.

Thomas (2012)\textsuperscript{26} mentioned in an article that small scale industries are the
main engine of economic growth in developing countries in the world. Because of
Small Scale Industries (SSI UNITS) any economy benefiting through substantial
local capital formation, increasing productivity, redistributes the national income,
curbing rural-urban drift of citizen and so on. However, SSI units has attracted
little attention for its development from the various tiers of government. Lack of
infrastructure facilities like power supply, provision of water, and accessible road
links to commercial centers and very little support from formal financial institution
is negatively affecting the optimum performance of SSI units in the developing
economies. Hence, the author is interested to study about these issues in Nigeria.
Therefore in this study the author studied about how the Small Scale Industries have been thriving in the face of various problems ranging from infrastructural to financial, confronting the entrepreneurs in the local communities and the effects of such constraints and problems on their business and how the problems can be ameliorated in order to improve the welfare and enhance the social economic development of the citizens at the grassroots. The population for the study comprises the small scale entrepreneur in Osun State of Nigeria. A sample of 200 respondents has been randomly selected from two local government area called Iwo and Ola Oluwa. Out of which 153 respondents returned their questionnaire filled. The researcher also made use of oral interview with the officials of the Ministry of Commerce and Industry in Iwo Zonal office serving the two local councils as well as using some relevant data from the internal Revenue Board of Osun State. The researcher used statistical tools like simple percentage, chi-square test to test the various hypotheses. The researcher finds that Small Scale business entrepreneurs have no access to funds from the formal financial institutions (Banks) due to non-availability of banks in their region and where there are few of the banks; the formality of processing loans and the interest on such loans have been very discouraging. Due to this, majority of the respondents make use of non-bank financial institution like thrift and cooperative societies, and also get financial assistance through Revolving Loan Scheme (ESUSU) and Daily Contributions Arrangement (AJO). Further the author mentioned that, in spite of all these challenges, investing in small scale business in these areas has great prospect and thus profitable to the owners. Small scale businesses have really served as a very charitable linkage between the source of raw materials and the usage of such materials by the large scale counterparts in the state. Also, of small
scale businesses have thrived greatly by helping the rural dwellers to have access to the finished products of large corporations through buying and selling.

Vijaya Bharathi et.al., (2011) in a paper titled Promotion of Small Scale Industries study about the strengths, weaknesses, threats and opportunities of SSI units. The small scale industries play a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. By less capital intensive and high labour absorption nature, SSI units sector has made significant contribution to employment generation and also rural industrialization. Under the changing economic scenario, SSI units has to face number of diverse problems like vast population, large scale un-employment and underemployment and scarcity of capital resources and the like. Hence, the government has been providing some special facilities through different policies and programmes to overcome the problems and for the growth and development of small scale industries. The efforts of the government have resulted in the phenomenal increase in the number of units in the small scale sector. The government also introduced various schemes and incentives for the promotion of SSI units. Constant support to SSI units sector by the Govt. in terms of infrastructure development, fiscal and monetary policies have helped to emerge as dynamic and vibrant sector of Indian economy. Over the past five decades, Government policies and schemes have been to protect the interests of the SSI units and facilitate its rapid development from time to time.

Venkatachalam. T (2002) in his research work could have revealed many more facts had the adequate data been available. Commercial banks should also own the responsibility of financing adequate working capital. The need based financing of working capital should be the approach instead of reliance on security
oriented financing. Separate cash credit limits for Raw material, SFG, Bills sent for collection has been granted as per need of business. The commercial banks out of their experience should help the small entrepreneurs in estimating the working capital needs of the unit.

Yuko Nikaido, Jesim Pais and Mandira Sarma\textsuperscript{29} is tried to find determinants of institutions credit to SSI units in India. In this study they are discussed in detail about role of SSI units and the banking sector in India’s economic planning and reviewed about credit support policies for SSI units. Further this study investigated into the factors affecting credit availability to the SSI units in India. In India public sector banks have been asked to ensure specialized SSI units branches to enable entrepreneurs to have easy access to banks credit and priority sector lending schemes helps to the SSI units to get financial assistance. This paper highlights that registered SSI units can get formal credit support from financial institutions than non-registered SSI units, like this education of entrepreneur, formalness and location of the enterprises is affecting the institutional credit to the SSI units. This concludes that registered with any act/agency, keeping accounts, and higher education is positively associated with the likelihood of receiving institutional credit, which is in line with the literature on credit constraint by small enterprises. Further it adding as, enhancing owners’ ability or empowerment through higher education and technical training and providing them with proper information on policies will be a prerequisite condition to penetrate institutional credit.
Yamoah Emmanuel Erastus et.al., (2014) examined the institutional framework for promoting small and medium-scale enterprises in Ghana from the perspective of SMEs. For this purpose the researcher had selected 157 SMEs using cross-sectional research design. They used both descriptive and inferential statistics using SPSS software. The study concludes that the incentive support institutions, structural support institutions, social support institutions, government policies, and regulatory institutions do exist to provide the requisite support services to SME sector in Ghana. However, there appears to be lack of national strategy on the SME sector, and poor coordination of government incentive support institutions as a result of lack of a central agency to coordinate all government incentive support institutions in Ghana. This might explain why respondents did not recognize government policies and incentive support institutions as significant in enterprise development in Ghana. Though some opportunities have been created, it can be concluded that, high interest rate, high tax and import duties and high utility charges are the key constraints related to the operations of government institutions, a situation that leads to high cost of doing business in Ghana. The findings further suggest that, for the desired enterprise growth to be attained these institutional constraints must be minimized while maximizing the impact of the institutional opportunities. Therefore, the desired small enterprise development may not be attained if these constraints are not addressed, notwithstanding the existence of the institutional opportunities in Ghana.
2.2 RESEARCH GAP

Many studies have been conducted in the field of small scale industries development. Some studies have been carried out in financial institutions lending to them. This study is unique in the following aspects;

So far, no study is carried out with regard to financial institutions lending to SSI units as a whole in Karnataka state. This study aims at analyzing the financial institutions lending to SSI units in Karnataka in relation to various social and economical aspects. The present study includes the analysis of problems faced by SSI Units in relation to accessing financial assistance from the formal financial institutions. Thus, the study is unique in nature.


