MSME Financing Gaps – Review of Literature for the Period 2005 To 2016

Maumita Choudhury¹ & Chandana Goswami²

Abstract

Micro, small and medium enterprises have been an area of great interest for many researchers. As per reports, credit is a crucial input for promoting growth of the MSME Sector. The review aims to find out the role of MSMEs in development, major hindrances to MSME growth and what influences such hindrance. MSMEs have been revolutionary in development of economies, especially in developing countries. The study has further found financial constraints as a major hindrance to MSME growth. MSMEs find it difficult to obtain credit from formal sector, and banks find it difficult to give credit to the sector. However, formal lending sources are indispensible to MSME development. Reliance on informal sector is not a healthy option for the small sector. The important factors that influence lending towards MSMEs are competitiveness, legal framework, credit policies and lack of information about SME borrowers, firm characteristics and firm size. Various schemes have been introduced over time directed at MSME development which have uplifted the sector but still remains ineffective in many areas. Also very limited studies have been found on unregistered and informal MSMEs as well as government funded organisations dealing with MSME financing.

Keywords: MSME, SME, MSME financing, Bank credit to MSMEs, Small entrepreneurs.

1. Introduction

Micro, Small and Medium enterprises have been an area of great interest for many researchers. This is owing to the rising importance of the sector in providing a source of livelihood for the people. The government and private sector organisations have not been able to meet the growing demands of employment. As such entrepreneurship comes as a relief to millions of jobless people. But not all such enterprises have been successful due to many factors. According to the Twelfth Five Year Plan in India, credit is a crucial input for promoting growth of the MSME Sector, particularly the MSE Sector, in view of its limited access to alternative sources of finance. A study by the IFC and McKinsey and Company has revealed that close to 45 to 55 per cent of the formal MSMEs (11-17 million) in the emerging markets all over the world do not have access to formal institutional finance. The finance gap is far bigger when considering the micro and informal enterprises; 65-72 per cent of all MSMEs (240-315 million) in emerging markets lack access to credit.

In order to further understand the scenario of MSMEs, a number of research works conducted in the field has been reviewed. The objectives behind conducting this review are:

i. To find out the role of MSMEs in development.
ii. To find out the most prominent problem hindering their growth.
iii. To find out factors which influence such hindrance.

2. Methodology

The range of literature reviewed have been retrieved from journal portals, organisational reports, government reports, University reports, Conference and Seminar publications and other websites.

¹ Research Scholar, Department of Business Administration, Tezpur University, Napaam, Tezpur – 784028, Mob. 9706655199. E-mail. momitachoudhury@gmail.com, Corresponding Author:
² Professor, Research Scholar, Department of Business Administration, Tezpur University, Napaam, Tezpur – 784028 Mob. 9435180258. E-mail. cg1@tezu.ernet.in
The key words used to retrieve these research works are MSME, SME, small entrepreneurs, MSME financing and bank financing to MSMEs. The time period of conducting the literature review was March, 2016 to March, 2017. The literature review has covered 58 journals papers, 3 working papers, 1 doctoral thesis, 1 research report, 2 articles in a book and 2 conference proceeding. The portals from which the journals, articles, thesis and others have been collected are listed as follows:

| Journal Portal         | No. of Papers |
|------------------------|---------------|
| Emerald Insight        | 20            |
| Elsevier               | 8             |
| Jstor                  | 3             |
| Springer               | 5             |
| Taylor and Francis     | 1             |
| Wiley                  | 3             |
| Bonfriing              | 1             |
| Oxford                 | 1             |
| Sibresearch            | 1             |
| Others                 | 24            |

The types of research work covered are both theoretical and empirical. The percentage of theoretical research and empirical research are 6% and 94% respectively. The geographical coverage of the research work reviewed for the study can be segregated as follows:

| GEOGRAPHICAL AREA            | NO. OF STUDIES. |
|------------------------------|-----------------|
| North Atlantic Core          | 1               |
| European                     | 15              |
| African                      | 5               |
| Asian (Excluding India)      | 5               |
| Indian                       | 18              |

3.1 Importance Of MSMEs

Agyapong (2010) emphasized that MSMEs contribution to the economy and employment in Nigeria is significant as they provide the stimulus to economic growth, fosters backward and forward linkages, develops human assets and develops entrepreneurial skills in the society. Demirbas and Matlay (2011) emphasized that the development of a sustainable and competitive SME sector in Turkey is contingent upon innovative practices in this type of firms. For innovation to take place there is a need for appropriate government infrastructure, policy and supporting networks to be in place. Ntea and Ekpenyong (2014) mentioned that it is an immutable fact that micro, small and medium enterprises (MSMEs) have remained the bed rock of economic growth and development not just in the developing economies but in advanced economies as well. In Nigeria, this sector has remained pivotal and must be sustained for economic growth and survival. Benkraiem and Gurau (2013) said that small business financing is of capital importance for the French economy, since SMEs represent more than large corporations, major vectors for innovation and employment. Rocha (2012) suggested that in order to improve opportunities for the poor. Dey (2014) added that MSMEs in addition to contributing significantly to manufacturing output, employment and exports of the country, also facilitates availability of goods and services to the economy at affordable costs and offers innovative solutions. Venkatesh and Muthiah (2012) also found that in recent years the role of small industries are growing rapidly with the growth of Indian market especially in various industries like manufacturing, food processing, textile and garment, retail, precision engineering, information technology, pharmaceuticals, agro and service sectors. Koshal (2016) emphasized how with focus on entrepreneurship, business growth and good governance Africa has managed to rise commendably from its never-ending poverty, unemployment and other ills. They added that many African countries are making strides not only economically but also through leadership and governance. MSMEs have brought about a revolution especially to developing countries. With increasing number of MSMEs, dependence on government and large industries for employment and development has decreased.
3.2 Major Problems Affecting MSME Growth Across The World

Beck and Kunt (2006) in their article have compiled recent cross-country firm-level databases in which they have summarized recent empirical researches which show that access to finance is an important growth constraint for SMEs, and that financial and legal institutions play an important role in relaxing this constraint, and that innovative financing instruments can help facilitate SMEs access to finance even in the absence of well-developed institutions. Cull, Davis, Lamoreaux and Rosenthal (2006) stated that a common explanation for the comparative absence of SMEs in poor countries today is that they cannot obtain access to capital. They referred to a survey conducted by the World Bank among the countries of Northern and Western Europe and North America, which confirms, large firms everywhere generally have more access to bank credit, both local and foreign, than small firms, whereas the latter rely heavily on internal funds and retained earnings. Baskaran (2011) analysed the Eleventh Five Year Plan and accordingly believed one of the core challenges of MSMEs is inadequate access to credit and working capital. Tambunan (2011), Lahiri (2012), Coad and Tamvada (2012) and Pauletet al. (2014) have confirmed lack of access to proper finance as one of the main constraints. Secondary data reveals that the annual growth rate in terms of Net Bank Credit, Credit to MSMEs and Percentage of Net Bank Credit offered to MSMEs shows a fluctuating trend. In 2002-03, the annual growth rate of credit to MSMEs showed a negative result. At the same time, access to finance for SMEs is often limited by the imperfections and constraints of supply and demand of credit. During a time of financial crisis where their capacity to invest depends generally on banking loans, SMEs cannot finance their projects. For this reason, they believed that the stability of the global banking system and not economic growth has been the regulators’ top priority (Klonowski, 2012).

Lack of proper access to finance is seen to be a common problem that holds back the growth of MSMEs but it is also crucial for MSMEs to have adequate access to finance in order to grow and develop.

3.3 Importance of Institutional Lending

Gbandi and Amissah (2014) emphasized that access to finance by the SMEs is very critical to the success of the SMEs in Nigeria but at the same time the informal finance sector provides more than 70% of the funds to the SMEs. They feel that government should find out the factors that make this possible and incorporate such factors into its policy for improving SMEs access to finance. Countries in which SMEs have access to external sources of finance are those with more advanced financial systems, suggesting there may have been a causal relationship between financial development and the viability of SMEs, as suggested by Cull, Davis, Lamoreaux and Rosenthal (2006). Berger and Udell (2006) have proposed that lending technologies are the key conduit through which government policies and national financial structures affect credit availability and that lending infrastructures have important effects on SME credit availability.

Veghholm and Silver (2008) stated how it is apparent that there is a certain level of discontent among customers, both SMEs and consumers, concerning the practices of financial institutions. The crucial question is whether it is advantageous for financial institutions to treat these kinds of initiatives as if they are in their own best interest. In a research covering Central Eastern Europe and South Eastern Europe, Krasniqi (2011) found that a major adverse feature of the environment, recognised by many studies, is the poor supply of external finance for new businesses. Furthermore, small firms are also likely to be subject to credit rationing because of the information asymmetry in the capital markets and therefore, according to him banks are more likely to meet the credit needs of larger firms whose ability to provide track record and collateral is greater than smaller firms, thus offsetting the information asymmetry effect. Small firms are less able to provide the required collateral, and less likely to access finance. Bhaird and Lucey (2011) found in Ireland that firms in the nascent stages of development are largely dependent on resources of the firm owner, friends and family. Shinozaki (2012) emphasized that with indirect financial systems dominant in Asia, enhancing the efficiency of bank lending for SMEs is a priority policy issue. The number of growth-oriented SMEs is expected to increase and they will seek increased access to the formal financial system. Thus, enhancing financial accessibility through diversifying financing instruments and infrastructure is critical to supporting growth-oriented SMEs. Saini (2014) found that banks are not the primary source of finance for most of the micro, small and medium enterprises in New Delhi as owners find the application process cumbersome and tedious. Also, they do not qualify for loans due to lack of both collateral and positive balance sheets. Not only does it discourage aspiring entrepreneurs but also plays a huge role in holding back the growth of existing firms.

Osotimehin, Jegede, Akinlabi and Olaide (2012) revealed from their study that a vast majority of the respondents indicated that lack of financial support from the government and financial institutions are problems mitigating against the establishment of small and medium enterprise in many states in Nigeria.
Lack of capital has been identified as the most serious problem of establishing small and medium enterprises. Based on the findings of the study, they recommended that the government should re-introduce the small business credit scheme so that beneficiaries can use them to run the micro, small and medium enterprises. Pickernell, Jones, Packham, Thomas, White and Willis (2013) assessed the association between business finance sources ranging from finance provided by friends and family to British government sourced finance and e-commerce trading activity. Positive associations between e-commerce trading activity and own personal finance and government finance were identified. However, Yadav (2012) in his study reports that bank finance has been observed as the most preferable source of funding by SMEs with the highest weight age of 94 per cent followed by retained earnings at 81 per cent. It was also found in the study that 79 per cent of SMEs reported bankers were unwilling to provide loans whereas out of bankers’ 21 per cent were observed to be indifferent to help SME firms. Data analysis of information collected from medium-sized French enterprises indicates that they have more leverage than the small ones. Some findings indicate that SMEs with high growth opportunities have more debt, particularly long-term debt (Benkraiem and Gurau, 2013). It has been observed that the structures and performance of formal lending institutions greatly affects the performance of their MSMEs. Countries with well-developed MSME sector are generally linked to well-structured lending institutions.

3.4 Difficulties Faced By Msmes With Respect To Institutional Lending

Singh and Singh (2014) observed that small-scale entrepreneurs face a lot of problems while availing loan facility from commercial banks and Government agencies. Financial institutions ask for a lot of information and data, State Financial Corporation takes several months to take decision on extending term loans and small-scale sector is not in a position to offer guarantee required by the banking sector. Even when small loans are raised from Government agencies, the procedure is so cumbersome that most of the entrepreneurs who are either illiterate or semiliterate, hesitate to make use of these facilities.

Yifuet. al. (2006) stated that in comparison to large enterprises, SMEs face more difficulty in providing collateral security requirements and guarantors required for institutional finance. They further found that financial institutions have to collect and deal with soft information about the potential SME borrowers and therefore, they felt that in dealing with SME lending, informal lenders may have a great advantage over formal financial institutions. The suggested if the informal financial sector is eliminated by the government for some reason, the credit funds will be allocated in an inefficient way due to adverse selection effect because formal financial institutions, lacking information, would be competing with each other.

Reddy (2007) from his study at Fiji found that lack of security, insecure environment, lack of experience and lack of capital are stated as a major threat to credit procurement by small firms. The financial sector also is quite biased towards more developed firms.

Irwin and Scott (2010) conducted a study from data extracted from a database of Barclays Bank customers in Great Britain and found that education made little difference to sources of finance. The survey further confirmed that ethnic minority businesses, particularly black owner-managers, had the greatest problem raising finance and hence relied upon “bootstrapping” as a financing strategy.

Price, Rae and Cini (2013) stated that during times of recession in Lincolnshire and Rutland, as indication of the long-term consequences of the “credit crunch”, the banks are not promoting the availability of finance for business, nor making finance easy for SMEs to access. These findings are supported by the conclusions of Taylor and Bradley (1994), who state that the smaller size of SMEs means that they are perceived as a greater investment risk by finance providers. Banks generally do not go out proactively to invite this segment of customers.

Nkundabanyanga, Kasozi, Nalukenge and Tauringana (2014) suggest that access to formal credit varies with type of business and turnover. The most important observed variable for commercial lending terms is interest rates, which, together with literacy levels, explains 31 per cent of the variances in access to formal credit by SMEs in Uganda. Sobia (2015) concludes from her research at Coimbatore that there is a general feeling among the proprietors of MSME units that they have not been provided loans from the lending institutions with operational flexibility in the terms of lending.

Narteh (2013) stated how, most SMEs in Ghana cannot meet the rigid collateral demands (viz. landed property) of the banks as a pre-condition for accessing bank credit. Similarly, pricing was also an essential bank selection criterion by the SMEs in Ghana.
Naidu and Chand (2012) reported that MSMEs find it difficult to compete with their large counterparts and access the various financial services on offer which constrains their growth and survival. Goswami (2014) in her study conducted on SMEs in Assam reveals that 75 per cent respondents used their own fund for initial investment, while 93 per cent stated using bank loans. It also found that majority sought cash credit meant for working capital, but after availing the loan majority of the SMEs had utilised the fund for starting the business. It was also found that banks generally do not go out to woo this segment of customers and majority of the respondents stated that it took longer than the stipulated time for the credit to be sanctioned. It is also found that due to their unique features, MSMEs find it difficult to obtain credit from formal lenders. Smaller sized loan amount coupled with lack of adequate assets to provide as collateral pose a hindrance for the small firms in getting formal loans.

3.5 Difficulties Faced By Banks in Lending to MSMEs

Singh (2006) from his study in Manipur observed that banks and financial institutions have financed the SSIs indiscriminately to achieve their targets either under pressure or with over-enthusiasm and most of the times feasibility report is not prepared by many units and even if prepared depicts a rosy picture to satisfy requirements of lending institutions. Kumar, Batra & Sharma (2009) from their analysis of reports of Ministry of MSMEs reasoned how due to their weak financial strength, unclear information of business plans and accounting statements, the credit worthiness of MSMEs cannot be ascertained and as such are considered as high-risk borrowers by investors and banks. Lam, Burton and Lo (2009) found that majority of the SMEs in Hong Kong appear to actively choose not to use one bank exclusively, and a large proportion of the SMEs appear to be willing to switch to other banks that offer better services, which suggests that banks face a challenging task in aiming to retain the loyalty of SMEs. Lundahl, Vegholm and Silver (2009) in their study in Sweden have found that the basic assumption that SMEs want banks to provide support primarily during difficult times is still valid. Because most banks focus on the same issues and offer practically identical products and services, these findings give some guidance to banks striving simultaneously to differentiate themselves from competitors in the financial sector and to strengthen the relationship with their SME customers (Lehmann and Neuberger, 2001, Germany). Moon (2012) based her study on secondary sources of data like books, journals, articles, reports, etc. stated that the inherent weakness of small enterprises and lack of transparency in the financial data make the process of rating difficult for MSMEs. The author further adds that in spite of promotional measures of RBI, there has been high rate of NPAs in this sector leading to further hindrances in flow of credit to the sector. Nilsson and Ohman (2012) have noted in Sweden that in a risk-averse banking environment, Lending Officers can be prone to assessing SME loan applications defensively to a noteworthy extent. They suggested that for business owners and managers seeking bank financing, it would be highly important to back up a loan application with financial “facts” that can be processed internally by a bank and presented to its credit committee in order to obtain a loan approval. Akoijam (2013) analysed in details stated that in the field of credit delivery, the financial institutions are under stress, particularly since the financial sector reforms of 1992-1993. They added that the credit policy should continue to emphasize on small borrowers. They believed that commercial banks are wary of lending to the agricultural sector and rural poor and therefore the provisions of mandatory lending for the priority-sector and agricultural activities should continue. The bank’s side of the story says that banks find it very difficult to lend to the small sector because of various factors, such as difficulty in obtaining ratings for such firms, lack of assets required as security, small size of loan which increases the cost to banks etc.

3.6 Towards Greater MSME Growth

Kundid and Ercegovac (2011) in their study at Croatia suggested that SMEs’ access to financial resources may be unfavourable, but policy response should still be targeted to specific areas of concern, rather than provide financial support to any enterprise just because of its size. Sharma (2011) reported from various news articles, government reports etc. how the Government of India is announcing number of measures to provide credit to MSME. Credit Guarantee Fund for Micro and Small Enterprises (CGTMSE) has entered into memorandum with major banks such as State Bank of India, Punjab National Bank, Canara Bank to cover the risk of loans provided to micro and small enterprises in case of collateral-free credit.

Kulkarni (2012) from their analysis of government reports, news articles, journals etc. has suggested that banks have many tasks on hand and hurdle to overcome which, when completed and constraints overcome, will certainly lead to strengthen the banker-borrower relationship. Sokoto and Abdullahi (2013) feel that there should be urgent and pragmatic effort to address lack of funding and weak infrastructure, which are some of the constraints facing SMEs in Nigeria. In this regard government should be apt and consistent in its policies pertaining to SMEs and
avoid policy summersaults. N. Shihabudheen (2013), after his research in Kerala, opined that the strategic approach in promoting SSIs in reducing regional disparities in industrial development in creating employment opportunities especially in rural areas and in developing entrepreneurship is successful especially after the MSME Act of 2006. However, Klonowski (2012) found that government-support programs are not effective in helping the sector close the liquidity gap as majority of the government programs aimed at closing the liquidity gap are concentrated at the lower end of the financial needs for the SME. In spite of this target concentration of the government, smaller firms from the SME sector experience difficulty in accessing finance at this range. There have been a slew of schemes and other measures by the government aimed at development of MSMEs. Some of them were successful while others were not effective. It is very important for the government to frame policies especially towards strengthening the lending sector towards MSMEs.

### 3.7 Factors Determining MSME Lending

From the inference gathered from related literature, a number of factors are recorded which are likely to influence MSME lending. Mercieca et al. (2009) conclude that competition increases the number of SMEs’ relationships since the number of banks has increased. Some more theoretical frameworks have also identified competitiveness as an important factor that affects banks’ lending behaviour (Petersen & Rajan, 1995; Haselmann et al., 2004). Competition may also bring about easier access to a wider range of bank services (Neuberger et al., 2006; Mudd, 2013) or a shield against credit rationing caused by a sole lending bank (Berger et al. 2001). Along similar such line, Berger et al. (2004) provides evidence for the role of competitiveness by analysing data from 74 countries. He used a method to measure competitiveness through a concentration ratio, which reported that a higher concentration in the banking sector will pose stronger impediments for SMEs from accessing formal finance. Beck et al. (2008) have claimed that legal framework has a greater impact on SME compared to firm size or bank ownership. Skosples (2012) tried to analyse the level of difficulty in obtaining loans considering legal extensiveness and legal effectiveness for all firms in transition economies. He found diverse effects on firms of different sizes. He established that small firms significantly encounter financing barriers caused by legal effectiveness in terms of consistency of regulations, efficiency of contract enforcement and treatment in the courts. He referred to European Bank for Reconstruction and Development (EBRD) standards in which legal extensiveness refers to how easy it is to create, register, and enforce movable assets as collateral, transparency of bankruptcy laws and its effectiveness. He further illustrated that legal extensiveness covers creditor rights and legal effectiveness captures transparency and consistency of laws, administrative and judicial procedures. Credit policies are being identified as another channel through which the Government affects credit availability and affordability (Berger & Udell, 2005). Credit regulations help to relax rigid financial conditions from lenders by offering incentives such as interest subsidies and credit guarantee schemes, to name a few (Harvie et al. 2010). Another key constraint that lending banks are facing is lack of information about opaque SME borrowers (Frame et al., 2001). It lowers bank’s confidence in making approvals or can also distort their decisions towards demanding more collateral (Berger et al. 2007). Social relationship between loan officer and firm manager (Lehmann & Neuberger, 2001) is regarded as another important factor. It is also said that bank relationship serves as a proxy for an effective protection from credit rationing (Berger et al., 2001) because long lasting relationships with customers helps banks address asymmetric information and share risks with them (Stiroh & Strahan, 2003). Some researchers have proposed factors that are consistent with hard information of borrowers (Petersen & Rajan, 2002). They could be financial ratios from their financial statements, such as cash flow and profitability (McKenzie & Wolfe, 2004) or loan amount used (Mercieca et al., 2009). Some authors have also considered collateral as a determinant after considering banks that adopt asset-based lending technologies (Berger et al. 2005; Haselmann & Wachtel, 2010). Factors that involve firm characteristics are also widely used, for example, management (McKenzie & Wolfe, 2004) or being a new firm (De Young et al. 2006). Firm size is also widely considered to be an important determinant of credit availability to SMEs (Scott & Dunkelberg, 2001; Neuberger et al., 2006). Minh Lee (2012) in their study has found that the bigger the Vietnamese SMEs are in size, the greater the proportion of bank loan that has been obtained by them which are inconsistent with previous studies reviewed by them. Key determinants that affect lending towards MSMEs are size, competition, legal structure, credit policies, information asymmetry, collaterals and age of firm.

### 4. Results And Discussions

This article summarizes recent empirical research where the role of MSMEs in different parts of the world has been highlighted. The importance of MSMEs is undermined by the fact that they provide the stimulus to economic growth, foster linkages and develops assets and entrepreneurial skills. Development of transitional
economies like Poland depends on MSME growth. The MSMED Act of 2006 in India has been found to be very successful in developing the MSMEs.

They are found to be the bed rock of economic growth and development not just in the developing economies but in advanced economies as well. MSMEs have been revolutionary in many developing countries. The review further attempts to find the most prominent problem hindering their growth. MSMEs reportedly have not been able to succeed due to lack of finance. It has also been reported by the review of related literature that institutional finance is believed to be more important for their growth in comparison to informal finance. But survey reports in India have suggested that proportion of institutional finance in comparison to informal finance is very negligible. From the extensive literature review on the related areas it has been found that the availability of timely credit affects their day to day activities and ultimately their profitability. Medium-sized enterprises in France are found to have more leverage than the small ones. Small-scale entrepreneurs face a lot of problems while availing loan facility from commercial banks and Government agencies as they ask for a lot of information and data, and usually take several months to take decision on extending term loans. The research summarized here suggests that access to finance is a dominant growth constraint for SMEs and financial and legal institutions play an important role in relaxing this constraint. Therefore the comparative absence of SMEs in poor countries can be explained by the fact that they cannot obtain access to capital. Financial limitation is mainly caused by limited access to formal sources of credit. During times of financial crisis where their capacity to invest depends generally on banking loans, SMEs in Europe cannot finance their projects. Lending infrastructures have important effects on SME credit availability and better lending infrastructures may significantly improve SME credit availability. Small firms are also likely to be subject to credit rationing because of the information asymmetry in the capital markets. Bank finance has been observed as the most preferable formal source of funding by SMEs. In another contrasting study banks are found to be not the primary source of finance for most of the micro, small and medium enterprises in New Delhi as owners find the application process cumbersome and tedious. Enhanced financial accessibility through diversified financing instruments and infrastructure is critical to support growth-oriented SMEs. It is also seen that SMEs face difficulty in providing collateral security requirements and guarantors required for institutional finance. In dealing with SME lending, informal lenders may have a great advantage over formal financial institutions because of more access to soft information. The financial sector also is quite biased towards more developed firms. Smaller size of SMEs means that they are perceived as a greater investment risk by finance providers.

The review also tries to determine what influences credit towards MSMEs. It suggests that banks and financial institutions have financed the SSIs indiscriminately to achieve their targets either under pressure or with over-enthusiasm leading to failures. MSMEs are considered as high-risk borrowers by investors and banks. A large proportion of the SMEs appear to be willing to switch to other banks that offer better services, which suggests that banks face a challenging task in aiming to retain the loyalty of SMEs. There has been reportedly high rate of NPAs from this sector. Furthermore, it is found that Government support to the SME sector should take various forms apart from financial availability. Credit Guarantee Fund for Micro and Small Enterprises (CGTMSE) has entered into memorandum with major banks such as State Bank of India, Punjab National Bank, Canara Bank to cover the risk of loans provided to micro and small enterprises in case of collateral-free credit.

From literature, the important factors that influence lending towards MSMEs are:

- Competitiveness
- Legal framework
- Credit policies
- Lack of information about SME borrowers
- Firm characteristics
- Firm size.

The literature suggests that the gap in MSME financing by banks is two-sided. There are problems faced by the entrepreneurs in availing finance from banks. On the other hand banks are shying away from lending to this sector. Considering all the aspects to the problem further research is very essential in order to reach a comprehensive and sustainable solution to the problem.

5. Research Gap
A number of significant and comprehensive studies have been conducted on various aspects of MSMEs but some issues are still not adequately addressed. The study has identified the following research gaps:

i. Unregistered or informal MSMEs are a segment which has a comparatively higher prevalence, but remains significantly unexplored. Due to scarcity of data on the unregistered sector, the area propounds potential new findings.

ii. As literature has suggested, there is a large financing gap in case of institutional finance to MSMEs. In order to analyse this gap, problems being faced by both the banks’ and MSMEs are required to be identified and corroborated. Majority of the studies have focused on the problems of MSMEs and the bankers’ viewpoint has not been assessed adequately.

iii. There are a number of organisations and schemes set up by the government in most of the countries to help the MSMEs. Their role and performance have not found significant place in studies.

6. Scope For Further Research

Further research can be carried out to include the status of unregistered and informal sector entrepreneurs into the body of knowledge. Also various government funded organisations which were set up with the aim of assisting the MSMEs needs to be evaluated for their roles and functions. The various schemes introduced by government to ease financing of MSMEs is another area that can be investigated.

7. Conclusion

As discussed in previous sections, the main purpose of this paper was to identify the issues affecting MSME growth and to achieve that, a comprehensive literature review was carried out on scholarly published articles. From the review and subsequently identified gaps, it is seen that access to finance is major problem on one hand and many reports suggest a slew of measures being carried out by the government to make it easier to obtain finance. Also it is suggested bank are shying away from lending to this sector as they don’t deem it to be a lucrative sector. The research gap identified was that unregistered and informal sector, which are comparatively much higher in prevalence but also unaccounted for, remains mostly off the radar. Also further research can be undertaken on government’s role in MSME development.

References

Abubakar Abdullahi Sokoto and Yahya Zakari Abdullahi (2013). Strengthening Small and Medium Enterprises (SMEs) as a Strategy for Poverty Reduction in North Western Nigeria. American Journal of Humanities and Social Sciences. Vol. 1 (3). PP. 189-201.

Allen N. Berger, Aslı Demirgüç-Kunt, Ross Levine and Joseph G. Haubrich (2004). Bank Concentration and Competition: An Evolution in the Making. Bank Concentration and Competition conferences at the World Bank and Federal Reserve Bank of Cleveland.

Allen N. Berger and Gregory F. Udell (2006). A more complete conceptual framework for SME finance. Journal of Banking & Finance. 30. PP. 2945–2966.

Allen N. Berger, Leora F. Klapper And Gregory F. Udell (2001). The Ability of Banks to Lend to Informationally Opaque Small Businesses. Journal of Banking and Finance. Vol. 25.

Allen N. Berger, Marco A. Espinosa-Vega, W. Scott Frame and Nathan H. Miller (2007). Why do borrowers pledge collateral? New empirical evidence on the role of asymmetric information. Journal of Financial Intermediation. 20. PP. 55–70.

Alex Coad and Jaganadh Pawan Tamvada (2011). Firm growth and barriers to growth among small firms in India. Small Business Economics. 39. PP. 383–400.

Ana Kundid and Roberto Ercegovac (2011). Credit rationing in financial distress: Croatia SMEs’ finance approach. International Journal of Law and Management. Vol. 53 (11). PP. 62–84.

Anders Nilsson and Peter Ohman (2012). Better Safe than Sorry: Defensive Loan Assessment Behaviour in a Changing Bank Environment. Qualitative Research in Accounting & Management. Vol. 9 (2). PP. 146-167.

Ashish Kumar, Vikas Batra and S. K. Sharma (2009). Micro, Small and Medium Enterprises (MSMEs) in India: Challenges and Issues in the Current Scenario. Management Insight. Vol. V (2).

Bedman Narteh (2013). SME Bank Selection and Patronage Behaviour in the Ghanaian Banking Industry. Management Research Review. Vol. 36 (11). PP. 1061 – 1080.
Chandana Goswami (2014). Credit Preference of Micro and Small Enterprises of Assam (India). Review of Integrative Business Economics Research. Vol 3(2). PP. 321-332.

Charles Harvie, Sothea Oum & Dionisius A. Narjoko (2010). Small and Medium Enterprises (SMEs) Access to Finance in Selected East Asian Economies. ERIA Research Project Report. No. 14.

Ciarán Mac an Bhaird & Brian Lucey (2011). An empirical investigation of the financial growth lifecycle. Journal of Small Business and Enterprise Development. Vol. 18(4). PP. 715-731.

Daniel Agyapong (2010). Micro, Small and Medium Enterprises’ Activities, Income Level and Poverty Reduction in Ghana – A Synthesis of Related Literature. International Journal of Business and Management. Vol 5(12). PP. 196-205.

Darek Klonowski (2012). Liquidity gaps in financing the SME sector in an emerging market: evidence from Poland. International Journal of Emerging Markets. Vol. 7 (3). PP. 335 – 355.

David Irwin & Jonathan M. Scott (2010). Barriers faced by SMEs in raising bank finance. International Journal of Entrepreneurial Behaviour & Research. Vol. 16(3). PP. 245-259.

David Pickernell, Paul Jones, Gary Packham, Brychan Thomas, Gareth White & Robert Willis (2013). E-commerce trading activity and the SME sector: an FSB perspective. Journal of Small Business and Enterprise Development. Vol. 20(4). PP. 866-888.

Dilek Demirbas, Javed G. Hussain & Harry Matlay (2011). Owner-managers’ perceptions of barriers to innovation: empirical evidence from Turkish SMEs. Journal of Small Business and Enterprise Development. Vol. 18(4). PP. 764 – 780.

Doris Neuberger & Christoph Schacht (2006). The Number of Bank Relationships of SMEs: A Disaggregated Analysis for the Swiss Loan Market. Thuenen-Series of Applied Economic Theory. No 52.

Dr. K. Alamelu & R. Baskaran (2011). MSMEs: The Key to Entrepreneurship Development in India. Bonfring International Journal of Industrial Engineering and Management Science. Vol. 1 (Special Issue). PP. 11-13.

Dr. Urmila Moon (2012). Problems and prospects of MSMEs in India. New Vistas in Contemporary Management.

E.C. Gbandi & E. Amissah (2014). Financing options for small and medium enterprises (SMEs) in Nigeria. European Scientific Journal. Vol. 10 (1). 327-340.

Elisabeth Paulet, Miai Parnaud & Tanym Abdessemed (2014). The SME struggle for financing: a clampdown in European banks post-crisis. Journal of Business Strategy. Vol. 35 (2). PP. 36 – 45.

Eric Amankwa & Mark-Oliver Kevor (2013). Overcoming the perceived barriers of e-commerce to small and medium scale enterprises in Ghana – A proposed model. International Journal of Commerce, IT and Management. Vol. 3(5). PP. 129-137.

Erik Lehmann & Doris Neuberger (2001). Do lending relationships matter? Evidence from bank survey data in Germany. Journal of Economic Behavior & Organization. Vol. 45. PP. 339–359.

Fatima Vegholm & Lars Silver (2008). The impact of corporate fairness on the bank-SME relationship. Journal of Financial Regulation and Compliance. Vol. 16(4). PP. 352-364.

George McKenzie & Simon Wolfe (2004). The impact of environmental risk on the UK banking sector. Applied Financial Economics. Vol. 14 (14). PP. 1005-1016.

Goran Skosples (2012). Law and credit constraints in transition economies. Economics of Transition. Vol. 20 (3). PP. 425–455.

Govind Sharma (2011). Do SMEs need to strategize? Business Strategy Series. Vol. 12 (4). PP. 186 – 194.

Iraj Hashi & Besnik A. Krasniqi (2011). Entrepreneurship and SME growth: evidence from advanced and laggard transition economies. International Journal of Entrepreneurial Behaviour & Research. Vol. 17 (5). PP. 456-487.

Jaskaran Singh & Davinder Singh (2014). Problems Related to the Financing of Small Firms in India. International Journal of Innovative Research & Development. Vol. 3(1). PP. 317-324.

Jeremiah Koshal (2016). Entrepreneurship: Unlocking Africa’s riches. Palgrave Studies in African leadership, Leading an African renaissance.

Johnathan A. Scott & William C. Dunkelberg (2001). Competition and Credit Market Outcomes: A Small Firm Perspective. SSRN Electoral Journal. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=280593.

K. O. Osotimehin, Charles A. Jegede, Babatunde A. Akinlabi & O. T. Olajide (2012). An Evaluation of the Challenges and Prospects of Micro and Small Scale Enterprises Development in Nigeria. American International Journal of Contemporary Research. Vol. 2 (4). PP. 174-185.
Kevin J. Stiroh & Philip E. Strahan (2003). Competitive Dynamics of Deregulation: Evidence from U.S. Banking. Journal of Money, Credit, and Banking. Vol. 35 (5). PP. 801–825.

Lin Justin Yifu & Sun Xifang (2006). Information, Informal Finance, and SME Financing. Front. Econ. China. 1. PP. 69–82.

Liz Price, David Rae & Veronica Cini (2013). SME perceptions of and responses to the recession. Journal of Small Business and Enterprise Development. Vol. 20 (3). PP. 484–502.

Mahendra Reddy (2007). Small business in small economies: constraints and opportunities for growth. Social and Economic Studies. Vol. 56 (1/2). PP. 304–321.

Mitchell a. Petersen & Raghuram G. Rajan (1995). The effect of credit market competition on Lending relationships. The Quarterly Journal of Economics. Vol. 110 (2). PP. 407–443.

Mitchell A. Petersen & Raghuram G. Rajan (2002). Does Distance Still Matter? The Information Revolution in Small Business Lending. The Journal Of Finance. Vol. LVII (6). PP. 2533-2570.

Moirangthem Biren Singh & N. Tejman Singh (2006). Working capital management of micro, small and medium enterprises (MSMEs) in Manipur- an empirical study. International journal of research in computer application & management. Vol. 3 (2).

N. Shihabudheen (2013). Role MSME Act 2006 in Promoting SSIs in Malappuram: An empirical study of Manjeri Municipality, Kerala, India. International Research Journal of Social Sciences. Vol. 2(9). PP. 11-18.

Ngboawaji Daniel Ntea & Otu Ekpenyongb (2014). Financing Micro, Small and Medium Enterprises (MSMEs) and the Challenges of National Development in Nigeria: Lessons from India. International Journal of Trade and Commerce-IARTC. Vol. 3 (1). PP. 162-171.

Nicolaus Landahl, Fatima Vegholm & Lars Silver (2009). Technical and functional determinants of customer satisfaction in the bank-MSME relationship. Managing Service Quality. Vol. 19 (5). PP. 581-594.

Patrick Ibbotson & Lucia Moran (2003). E-banking and the SME/bank relationship in Northern Ireland. International Journal of Bank Marketing. Vol. 21 (2). PP. 94-103.

Phuong Nu Minh Lee (2012). What Determines the Access to Credit by SMEs? A Case Study in Vietnam. Journal of Management Research. Vol. 4 (4). PP. 90-115.

Prasanna Kulkarnia & Mr. Abhijit V. Chirputkarb (2012). Impact of SME Listing on Capital Structure Decisions. Procedia Economics and Finance. Vol. 11. PP. 431 – 444.

Princy Saini (2014). Study of Micro, Small and Medium Enterprises. Researching Reality Summer Internship. Working paper: 319.

Rainer Haselmann & Paul Wachtel (2010). Institutions and Bank Behavior: Legal Environment, Legal Perception, and the Composition of Bank Lending. Journal of Money, Credit, and Banking. Vol. 42 (5). PP. 966-984.

Rajib Lahiri (2012). Problems and Prospects of Micro, Small and Medium Enterprises (MSMEs) in India in the Era of Globalization. RTC International Conference Proceedings.

Ram Jass Yadav (2012). MSME Finance: Viability Study from Bankers’ Perspective. International Journal of Advanced Research in Management and Social Sciences. Vol. 1 (1). PP. (50-71).

Ramzi Benkraiem & Calin Gurau (2013). How do corporate characteristics affect capital structure decisions of French SMEs? Journal of Emerging Markets. Vol. 7 (3). PP. 245 – 262.

Regan Lam, Suzan Burton & Hing-Po Lo (2009). Customer trade-offs between key determinants of SME banking. Journal of Marketing Management. Vol. 27 (6). PP. 428-445.

Robert Cull, Lance E. Davis, Naomi R. Lamoreaux & Jean-Laurent Rosenthal (2006). Historical financing of small- and medium-size enterprises. Journal of Banking & Finance. Vol. 30. PP. 3017–3042.

Robert DeYoung, Dennis Glennon, & Peter Nigro (2008). Borrower–lender distance, credit scoring, and loan performance: Evidence from informational-opaque small business borrowers. Journal of Financial Intermediation. Vol. 17. PP. 113–143.

Sanjeev Kumar Dey (2014). MSMEs in India: It’s growth and prospects. Abhinav monthly Refereed Journal of research in Commerce and Management. Vol. 3 (8).

Shannon Mudd (2013). Bank Structure, Relationship Lending and Small Firm Access to Finance: A Cross-Country Investigation. Journal of Financial Service Research. Vol. 44. PP. 149–174.

Shigehiro Shinozaki (2012). A New Regime of SME Finance in Emerging Asia: Empowering Growth-Oriented SMEs to Build Resilient National Economies. ADB Working Paper Series on Regional Economic Integration No. 1.

Stephen Korutaro Nkundabanyanga, Denis Kasozi & Irene Nalukeng (2014). Lending terms, financial literacy and formal credit accessibility. International Journal of Social Economics. Vol. 41 (5). PP. 342-361.
Steve Mercieca & Klaus Schaeck & Simon Wolfe (2009). Bank Market Structure, Competition, and SME Financing Relationships in European Regions. *Journal of Financial Service Research*. Vol. 36. PP. 137–155.

Sudha Venkatesh & Krishnaveni Muthiah. SMEs in India: Importance and contribution. *Asian Journal of Management Research*. Vol. 2 (2).

Sunildro L. S. Akoijam (2013). Rural credit: a source of sustainable livelihood of rural India. *International Journal of Social Economics*. Vol. 40 (1). PP. 83-97.

Thorsten Beck & Asli Demirguc-Kunt (2006). Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance*. Vol. 30. PP. 2931–2943.

Thorsten Beck, Asli Demirguc-Kunt & Luc Leaven Ross Levine (2008). Finance, Firm Size and Growth. *Journal of Money, Credit and Banking*. Vol. 40 (7).

Tulus Tahi Hamonangan Tambunan (2011). Development of small and medium enterprises in a developing country - The Indonesian case. *Journal of Enterprising Communities: People and Places in the Global Economy*. Vol. 5 (1). PP. 68-82.

V. Sobia (2014). A study on institutional financing of women entrepreneurs in MSME - with special reference to Coimbatore district. Doctoral thesis, PG and RD of Commerce Vidyasagar College of Arts and Science, Udumalpet, Tamil Nadu, India.

W. Scott Frame, Aruna Srinivasan & Lynn Woosley (2001). The Effect of Credit Scoring or Small-Business Lending. *Journal of Money, Credit, and Banking*. Vol. 33 (3).