Chapter-II
Review of Literature

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The present chapter is an endeavour to briefly describe the existing literatures on various aspects of micro and small enterprises. Literatures relating to current topic have been collected from various sources namely journals, books, published and unpublished theses and websites. For the easy understanding about the context of the studies conducted in India and abroad the reviews have been categorised and presented as follows:

2.1Review of Studies Conducted Outside India

2.2 Review of Studies Conducted in India

The review of various studies is very much helpful to identify the research gap.

2.1 Review of Studies Conducted Outside India

Wijewardena (1991) found that multinational enterprises did not use more domestic commercial bank credit compared to local firms. The study revealed that the direct financial contributions of parent companies to equity capital of their affiliates were very small, indicating a low level of direct foreign inflow of capital into the host the country. The level of internal financing of multinational enterprises was slightly higher than that of the local firms. The percentage contribution of equity finance to total sources of funds was 22 for multinational enterprises compared to 16 for local firms. Multinational enterprises seemed to rely more heavily on trade credit as a source of finance than their local firms. In the case of multinational enterprises, trade credit accounted for 70% of total external finance compared to 52% for local firms as it was found that the credit terms of multinational enterprises were relatively easy compared to local firms.

Alan (1996) revealed that banks were the most significant providers of finance to the small firms. Loan was dominant as the first source of finance after internal cash flow. The next most important source was hire purchase or leasing which was a source of finance to 45% of the sample firms which had raised new finance. Larger firms had the highest proportion of bank finance and the micro firms were more reliant on private individuals, partners and working shareholders. He also observed that finance from venture capitalists was generally insignificant and its greatest impact was among medium-sized firms. Both manufacturing and non-manufacturing small firms were much more reliant on short term loans. They suggested that U.K. banks had to look more favorably upon the Asian business owner than upon the white business owner.

Giorgio & Donato (1997) concentrated on the importance of collateralized debt and the influence of uncertainty on leverage and debt maturity. They studied the relationship between interest rate uncertainty, firm investment demand and financial decisions. They found that interest rate uncertainty negatively influenced investment demand. They did not find significant differences between small firms and larger firms. The result also showed that not only interest rate levels were important but their variability was important as well. Since short-term debt was an important financing source for small firms, they interpreted the latter result as evidence of the relationship between capital market imperfections and firm investment decisions.

Robert & Christer (1997) found that smaller businesses had a much greater concentration in the service sector. The service sector had a smaller need for fixed investment than manufacturing because investment in plant and machinery of this sector was relatively lower than that of manufacturing sector. The higher proportion of short- term bank debt reflected the lower growth potential of firms since the ability to raise external equity usually depended on the capital gain expected for the external investor. They revealed that as firms get larger, they needed larger range of finance sources including their own retained profits.

Liargovas (1998) made an assessment of the homogenous approach and policy measures towards small and medium enterprises (SMEs) adopted by the white paper on growth, competitiveness and employment and by national policies in Greece. He revealed that 96% of the total number of micro enterprises played a significant role in Greek economic and social life. He observed that the two basic policy measures towards SMEs were financial assistance i.e., seed capital funds, global and subsidised loans, guaranty schemes and SME Initiative and micro policies to weave the economic and social framework. The study found that financial assistance measures were ineffective. This was due to the fact that Greek SMEs were too different form the ideal-typical SMEs which existed in the developed European Union member-states.

Winker (1999) revealed that the overall effect of financing constraints was not uniform. The firms with a low degree of capacity utilization reduced their investment expenditures heavily when facing financing constraints but a slight increase could be found for firms with near to full utilization of capacities.

Beck, Kunt & Maksimovic (2002) studied a firm-level survey database covering 48 countries. The study indicated that legal and financial institutions affected different types of external finance in different ways and firm size was an important determinant of accessing different types of external finance. Larger firms with financing needs were more likely to use external finance compared to small firms. Their results also indicated that these firms were more likely to use external finance in more developed financial systems, particularly debt and equity finance. They observed that exporters were more likely to use bank and operations finance and foreign firms were more likely to issue equity but less likely to use operations finance. Manufacturing firms were more likely to use bank and operations finance but less likely to use equity financing. The study also observed that firms with good financial and legal systems had lower costs in issuing equity than firms in countries with poorly performing financial and legal systems. Small firms with greater financing needs were less likely to use equity. Firms with greater financing needs were more likely to issue equity if they were in countries with well-developed financial systems. Again, small firms that face lower financing obstacles were more likely to issue equity. Foreign firms were more likely to use equity than manufacturing firms.

Tucker & Lean (2003) viewed that access to information was important both from the MSEs perspective and from the perspective of the providers of financial services and products. The MSEs required information to identify the potential suppliers of the financial products and to evaluate the cost of the financial services and products that were being offered. The financial service providers required information to evaluate the risk of the MSEs which was applying for finance and to assess the prospects of the MSEs within the market segment. They found that small firms could not provide proper information at the time of raising finance from the providers of finance generally from banks. Since small firm managers were often product or service specialist but not specialists in the area of finance and so they often suffered from a lack of financial sophistication.

Dabo (2006) dealt with the financing of the firms. The study revealed that 28.3% of the respondents used only personal savings and finances to commence their business ventures and more than 71% of the respondents used a mix of other sources of finance at start-up in some cases together with the personal savings. Out of the 358 respondents who used other sources of finance at start-up, 44.69% had primarily used financing from friends and relatives at start-up, 29.33% had obtained finance from moneylenders and cooperative associations they belong to, while only 12.01% had actually obtained any funding from banks. The study also explored the obstacle levels of entrepreneurs in getting finance from external sources and found that about 38% of the respondents indicated that charging interest in financing was their major obstacle to accessing finance. Further, 22.91% of the respondents disclosed that the collateral requirements of financiers posed the major obstacle. A further 15%, 13% and 11 % indicated that lack of access to external equity financing, lease finance and long term loans respectively were the major obstacles faced by their SMEs in accessing financing.

Berger & Udell (2006) proposed a conceptual framework for the analysis of SME credit availability issues. They argued that in the context of loans to SMEs, two factors affected the availability of loans and the nature of credit facility. First was the lending technology which referred to the combination of primary information source, screening and underwriting policies and procedures, loan contract structure and monitoring mechanisms which were used in the lending business. Second was the lending infrastructure which included the information environment including the quality of accounting information, the legal, judicial and bankruptcy environments, the social environment, the tax environment and the regulatory environment in which financial institutions operated in a given country. The government policies influenced the lending technology used in different countries, through the lending infrastructure.

Beck, Kunt, Laeven & Maksimovic (2006) found that older, larger and foreign-owned firms reported less financing obstacles. The study also found that 36% of all firms rated financing as major obstacle, 27% as moderate, 18% as minor and 19% as no obstacle. On average, smaller, agricultural, non-listed, non-group-owned, national, domestically-owned and government-owned firms reported larger financing constraints. As per financing obstacle was concerned the high interest rates top the lists of specific financial obstacles, followed by the lack of access to long-term loans. More than half of the sample firms rated high interest rates as major obstacle and corruption of bank officials was rated as only minor obstacle but more than half of all surveyed firms rated it as no obstacle. Small and medium firms reported significantly higher financing obstacles than large firms. Financing obstacles decreased in the age of the enterprise. Agricultural and construction firms seemed to face higher obstacles, whereas service firms reported significantly lower financing obstacles. The study suggested that institutional development was the most important country characteristic explaining cross-country variation in firms' financing obstacles.

Chiou & Cheng (2006) examined how working capital management of a firm was influenced by the determinants of working capital management such as business indicators, industry effect, operating cash flows, growth opportunity for a firm, firm performance and size of the firm. The study provided consistent results of leverage and operating cash flow for both net liquid balance and working capital requirements, however, determinants such as business indicator, industry effect, growth opportunities, firm performance and size of the firm were unable to produce consistent results for net liquid balance and working capital requirements of the firms.

Jocelyn & Timothy (2007) examined the value of trade credit relationships for small firms. They initially documented the benefits of trade credit relationships and explained why small firms in financial distress tend to prefer trade credit from suppliers over bank financing. Banks did not agree to debt reduction, additional financing, or deviate from absolute priority. Implicitly, banks' interests were best served by forcing liquidation. Secured suppliers with pre-petition debt tended to provide debtor-in-possession financing, while unsecured suppliers were more likely to agree to deviations from absolute priority.

Afza & Nazir (2007) examined the relationship between the aggressive/ conservative working capital policies for 17 industrial groups and a large sample of 263 public limited companies listed on Karachi Stock Exchange for the period 1998-2003. They used ANOVA and LSD test and found significant differences among their working capital requirements and financing policies across different industries but rank order correlation confirmed that these significant differences were remarkably stable over the six-year study period. Using Ordinary Least Square regression analysis the study found a negative relationship between the profitability of firms and the degree of aggressiveness of working capital investment and financing policies.

Silvia (2009) focused on the financing of small entrepreneurs in Italy by using data in the Survey of Household Income and Wealth. In the period 1989–2006 only a little more than one fourth of these micro-firms used bank loans for business purposes. Supply factors had played a role in explaining this low usage of bank loans. Overall, most of the micro-firms which had an average number of 4 employees, depended only on internal finance to run their businesses. However, during the period the location of the sole proprietor and interest rate were the important factors that affected the small entrepreneurs in getting finance form banks.

Nazir & Afza (2009) examined the factors determining working capital requirements of the 132 manufacturing firms from 14 industrial groups that were listed on Karachi Stock Exchange between the periods 2004 to 2007. The study used operating cycle, operating cash flows, leverage, size, return on assets, Tobin's *q* and growth as internal factors and industry dummy and level of economic activity as external factors determining working capital requirements of the firms. The study found that operating cycle, leverage, return on assets and Tobin's *q* significantly influenced the working capital requirements of the firms. The working capital requirements were different in different industries in Pakistan and industries had various working capital management policies as per their requirements.

Carbo, Rodriguez & Udell (2010) argued that the issue of bank competition and credit availability may matter most to small and medium enterprises because they were more vulnerable to information problems and were much more bank dependent than large enterprises. They suggested that constrained firms with restricted access to the bank loan market may turn to the trade credit market to exploit their investment opportunities, while unconstrained firms would turn to the bank loan market. Additionally they analysed the supply and trade credit market by testing whether extension of trade credit was sensitive to bank lending. They found that there was a significant sensitivity of the extension of trade credit to bank lending for unconstrained firms, thereby suggesting that these financially unconstrained firms may act as lenders due to their easier access to a less costly source of funding.

Ciaran, Bhaird & Brian (2010) indicated that use of long-term debt financing was positively related with the size of the firm and negatively related with firm age. They also indicated that firms increasingly employed retained profits for investment projects as debt was retired over time. Results indicated that SMEs with a high level of fixed assets had overcome the problems of asymmetric information by providing collateral to secure debt finance. Firms with a higher expenditure on research and development employed higher levels of external equity and lower levels of internal equity. Ownership structure was also negatively related to external equity and positively related to internal equity, confirming the well-documented desire for independence and control of closely held firms. They also indicated that a number of salient issues were relevant in sourcing investment finance for all SMEs, irrespective of sector. The common underlying factor in accessing external finance was alleviation of information asymmetries, which was relatively easier for firms with a high level of fixed assets accessing debt markets. Firms engaged in a high level of intangible activity with low turnover and a low level of tangible assets had a greater reliance on external equity.

Leonardo, Annalisa, Castelli & Iftekhar (2010) found that standard credit risk measures extracted from previous literature findings, together with 'discrimination' variables, significantly affected the probability of self-declared credit rationing. They observed that the subgroup of self-declared credit-rationed firms had excess positive investment–cash flow sensitivity, differently from the complementary subgroup, while this did not occurred when they used traditional a priori criteria.

Zariyawati, Taufiq, Annuar & Sazali (2010) conducted a study to investigate the determinants of working capital management of listed firms in Malaysia for the period

2000-2006.used cash conversion cycle as comprehensive measure of working capital management. The results indicated that firm size, debt ratio, growth of the company, economic growth and inflation associated with firm's working capital management. They found that firm's growth opportunity determine how managers managing firm's working capital. External factors had the relationship with working capital management. They suggested that managers should consider internal factors and external factors to establish optimal working capital management.

Achleitner, Braun & Karsten (2011) investigated the financial structure of German start-up firms. They had taken an exploratory approach to investigate the effects of a broad set of firm and owner characteristics on the extent and the sources of financing. By and large they found that the extent of financing and the choice of capital sources were both strongly determined by firm as well as owner characteristics. At start-up, human capital and experience played important role for financing patterns of German's firms while it was different from U.S. One reason for this difference might be a higher importance of personal relationships in start-up financing in Germany compared to the U.S. A second reason could be the comparably higher availability of public funding for new ventures in Germany, which was often contingent on owner characteristics.

William, Gartner, Casey, Frid, John & Alexander (2012) found that 83.8% of nascent entrepreneurs contributed personal funds to their start-up effort and about 31.8% of respondents used external sources. Surprisingly, 14.4% of the firms in the sample did not acquire any financing and less than 2% of nascent entrepreneurs used external financing without putting up any personal money of their own. For external funding, the main sources were spouse and family (2.47%), banks loans and lines of credit (12.07%) and asset-backed debt (11.71%). They noted that only 0.3% of nascent entrepreneurs in the sample acquired venture capital financing. In addition, one respondent used a loan from a government agency. Personal characteristics, such as race, education and the entrepreneur's net worth affected the acquisition of certain types of financing.

Saarani & Shahadan (2012) found that tangibility of assets, debt, profitability and non-debt tax shield were the main determinant factors in working capital requirements. The relationship between growth, size, age and working capital requirements were not significant. The relationship between industry type and working capital requirements was also not significant. Non-debt tax shield had a significant negative relationship with working capital. The study revealed that the companies which were reliance more on intangible assets would reduce the investment in working capital. Moreover, the companies with high leverage showed lower working capital requirements.

Christian, Dietmar, Andre & Gygax (2013) revealed that 34% of family firms intended to use debt financing for succession expenditures. The owner-manager's attitude toward debt was neutral and positively correlated with his or her financial knowledge, debt usage experience and the size of the firm. Moreover, the existence of an advisory board was positively correlated with an owner-manager's attitude towards debts and the number of shareholders. Only 69% of family firms were already engaged in succession-planning activities. More interestingly, succession experience and succession planning were not significantly correlated to each other. They demonstrated that general personal factors, succession-related personal factors and firm factors impacted the owner-manager's intentions. Specifically, the owner manager's financial knowledge, attitude toward debt, succession planning and prior succession experience were found to determine succession-financing decisions. They suggested that to complement the work, future research should continue to take a multi-dimensional perspective on succession and incorporate personal relationship issues into the analysis of succession financing.

Daphne, Jun & Yuehua (2013) in their study underscored the importance of informal financing in facilitating the growth of private firms in China and focused on two specific types of alternative financing namely underground finance and trade credit. They pointed out that informal financing in the form of underground financing and trade credit, substituted formal financing in providing financial assistance and capital to private firms in China. They found that underground finance and trade credit had positive effects on private firms' performance, indicating that they were useful informal financing channels for private firms in China and transition economies in general. They compared the effects of both formal bank financing and informal alternative financing. Their results showed that bank loans did not have a significant effect on firm performance while both the effects of underground finance and trade credit on firm performance were found to be positive and significant. The study suggested that bank financing should be substituted by informal financing in China and governments should provide more support to alternative financing channels to private firms.

Ondieki, Nashappi, & Moraa (2013) carried out a research on sources of finance available to small scale enterprises in Nairobi. They found that majority of the enterprises relied on limited own and family savings for start-up and additional capital. They hardly relied on external sources of finance. Hence, these enterprises had poor access to credit. It was also noted that success rate of accessing credit of urban-located enterprises was higher than that of the rural-located enterprises.

Detlev, Boris & Christian (2013) categorized 171 sample companies into three groups namely non-innovative, moderately innovative or highly innovative. They revealed that importance of self-financing for all SMEs in Germany was very high and it did not depend on the group of companies. In case of debt financing overdraft credit, trade credit and middle or long-term bank credit had the greatest importance. The differences between these three instruments were in the case of highly innovative enterprises were not significant. The importance of overdraft credit as well as that of trade credit, however, declined with an increasing degree of innovation. The importance of leasing as a credit substitute was relatively high and had been steadily increasing in the case of highly innovative enterprises in comparison to moderately innovative enterprises. In the case of factoring, there was no significant difference between the individual innovation groups. The financial mix of SMEs differed basically in relation to the company's degree of innovation. In addition, it had been demonstrated that internal funds had the highest value, followed by short-term, middle-term and long-term debt and finally external equity.

Raza, Aslam & Farooq (2013) revealed that the financing pattern of Pakistani manufacturing firms was derived from the western countries and heavy reliance of Pakistani firms on short term debt was the major difference between developed countries financing pattern and Pakistani firms' financial decisions. The study also confirmed that most of the financing pattern adopted by Pakistani manufacturing firms was consistent with the financial theories about capital structure and with the western corporate sectors.

Wasiuzzaman & Arumugam (2013) examined the determinants of the level of investment in net operating working capital by firms in Malaysia. Data from 192 companies during the period 2000 to 2007 were analysed using the OLS regression technique. The study found that in times of economic expansion, younger and smaller firms with less tangible assets, low leverage, high immediate sales growth, high operating cash flows, less volatile revenues and low levels of asymmetric information were likely to have the highest investments in operating working capital. The study also found that the determinants of working capital investment namely leverage, immediate growth opportunities, asymmetric information, size or capital market access, asset tangibility, revenue volatility, age, operating cash flow, economic condition except profitability, board size and board independence significantly influenced the level of working capital investment of the firms. Operating cash flow and economic condition were highly significant in influencing working capital investment of the firms. The firms which had higher leverage results in lower investment in working capital and the firms with high levels of information asymmetry would have lower investment in working capital.

Abbadi & Abbadi (2013) analysed the factors determining working capital requirements of the Palestinian firms that were listed on the Palestine Securities Exchange during the period of 2004 to 2011. They found that the cash conversion cycle, return on assets and operating cash flow were significant determinants and positively related to the working capital requirements while leverage and firm size were significant but negatively related to the working capital requirements. On the other hand, interest rate and real GDP growth rate had no significant impact on the working capital. The study revealed that Palestinians firms maintained a sizable working capital which may be due to a long cash conversion cycle and to conservative policies due to instable economic and political conditions. Interesting the study found that there was the long period for cash conversion cycle which takes firms about six months on average to convert raw materials into cash indicating that Palestinian firms maintained high amount of working capital.

Mohamad & Elias (2013) investigated the practice of working capital management of 150 public listed companies that were listed in Bursa Malaysia Main Market covering the period of 2002-2011. The study used cash conversion cycle (CCC) and working capital as a proxy for working capital requirement (WCR) while debt, capital expenditure, free cash flow, gross domestic product and firm growth were used as the factors determining working capital management. The study revealed that out of five factors selected for the study, debt showed negative significant relationships with CCC and WCR. Capital expenditure showed positive significant with CCC and negative significant with WCR while free cash flow showed negative significant with CCC and positive significant with WCR. They applied correlations and Pooled Ordinary Least Square Regression analysis and the result showed that there were significant associations between working capital and its determining factors.

Belitz & Lejpras (2014) analysed the role of public support in the financing pattern of research and development in German SMEs and their assessment of financing conditions in the context of other framework conditions for innovation. There were different types of SMEs that access public funding for research and development and innovation activities. In their study they had used 2,700 sample German SMEs that participated in public research and development promotion programs during the 2005-2010 period. They identified four groups of companies with different patterns of public and private sources of research and development finance, such as own capital, grants, private and subsidized loans. The firms were positive about public financing of research and development in Germany in 2010. Despite the different financing patterns, they found only slight variations in this assessment across the four groups of subsidized SMEs. The study revealed that 63% of the research and development expenditures were financed from the internal capital and that of 37% were financed from external capital. Bank loans played minor role in the research and development expenditures (5%). The research and development activities of the intensively supported SMEs seemed to be highly dependent on public research and development subsidies. SMEs also needed larger amounts of external finance in the form of loans and face challenges in obtaining them.

Kwenda & Holden (2014) analysed the determinants of working capital investments of 92 companies listed on the Johannesburg Stock Exchange in the sectors namely chemical and oil sector, consumer goods, retail, industrials, mining, leisure and recreation and technology, as classified by the McGregor BFA Library over the period 2001-2010. Mean, standard deviation, median and correlation matrix were applied for analyzing the data. Using the Generalized Method of Moments estimation, the study found that South African-listed firms estimated the levels of working capital investment and they adjusted relatively slowly towards their target levels. Among the factors leverage, short-term finance, fixed investment, operating cash flows, state of the economy, firm size and sales growth rate, the study found that leverage, short-term finance and fixed investment significantly influenced the level of working capital investment. Since working capital investment constituted a significant portion of a firm's assets and impacted on shareholder value and so, it was important for managers to understand the key factors that drive the working capital investment level of their firms. They suggested that firms did not necessarily accumulated resources to finance their working capital and their market power might not be large enough to affect their level of working capital investment.

Mensah (2015) identified challenges faced by small and medium-size enterprises in accessing credit facilities from financial institutions. The researcher also indentified the extent to which both financiers and borrowers agreed to challenges believed to hinder lending to small and medium-size enterprises. A questionnaire survey method was used to collect data from 300 participants of whom 150 were small and medium-size enterprises and remaining 150 were bankers in Stanbic Bank Ghana Limited. Pearson correlation test, simple linear regression analysis and the arithmetic mean were applied in the study for analyzing the data. The study found that high inflation, lack of adequate capital, high interest rate in the capital market and exchange rate fluctuation were the challenges faced by small and medium-size enterprises in accessing credit facilities from financial institutions. The researcher found that there was a strong positive relationship between challenges perceived by borrowers and challenges perceived by bankers and this relationship was sufficiently strong with 62.3% of the total variation accounted.

Haritone & Mirie (2016) conducted a study to establish the determinants of lending to small and medium enterprises by commercial banks in Kenya. The researchers used descriptive research design. All the 43 commercial banks in Kenya were selected for the study. The researchers used secondary data from the annual published reports of commercial banks in Kenya for a period of 5 years from 2010-2014 and these are analysed through the multiple linear regression using the Statistical Package for Social Studies version 20. The study established that bank size and liquidity significantly influenced lending to small and medium enterprises by commercial banks in Kenya while credit risk and interest rates had no significant influence on lending to small and medium enterprises by commercial banks in Kenya.

Cuong & Nhung (2017) conducted a study to investigate the determinants of working capital requirements and the speed with which firms can adjust toward their target working capital requirements. The study was based on a sample of 314 non-financial firms listed on the Viet Nam Exchange during 2010–2015. Using the Generalized Method of Moments estimation, the study found that firms pursued target levels of working capital requirements but the adjustment process was relatively slow with an adjustment coefficient of 0.4573. The working capital requirements increased significantly with increasing in the firm’s profitability because profitability was positively correlated with working capital requirements. On the other hand, the working capital requirements decreased significantly with increasing in the size and fixed investment of the firm because there was a negative relationship between working capital requirements and fixed investment as well as company size. The study revealed that large companies often invested in lower working capital than small firms. They suggested that in order to adjust target levels of working capital requirements companies should adopt policies that expand the size of the business and should invest in fixed assets to enhance the company's profitability.

Aunga & Birore (2017) conducted a study to assess the challenges facing small scale entrepreneurs in accessing loan from banks at Ngongong are, in Tanzania. The sample size of the study was 100 but the researchers were able to obtain information from only 65 respondents. They used stratified sampling technique. The study found that collateral, high interest rates, lack of adequate accounting information were the challenges facing small scale entrepreneurs in accessing loans from banks. The researchers suggested that banks should lower their interest rates and also grant loans on business asset and income as collateral securities. Besides, small scale entrepreneurs should be given some training in form of seminars through trade organizations.

Subeyr (2017) conducted a study to evaluate factors affecting access to micro finance by micro enterprises in Garowe, Puntland. The study used firstly purposive sampling in selecting enterprises market and after that cluster sampling was used to determine enterprises in each zone and at last systematic sampling was used for determining the study respondents. Mean, standard deviation, spearma's rank correlation coefficient and Chi square test were applied in the study for analyzing the data. The study found out that the collateral requirement was very high because banks were willing to reduce the risk of losing their loan. The study revealed that individual guarantor played important role in accessing credit from banks. The study also found out that the cost of credit and business risk were the two important factors affecting access to credit by micro enterprises. The study recommended that microfinance institutions should simplify the collateral requirements to increase the accessibility to microfinance by micro enterprises. The study also recommended that micro finance institutions and banks should reduce their bank's profit charge to micro enterprises.

2.2 Review of Studies Conducted in India

Ramakishna (1962) pointed out the nature and magnitude of financial problem faced by the small scale sector of India and the role of Government and Banks in financing this sector. He also analysed the causes of the prejudice of financial institutions against small industries in the matters of lending. The study highlighted that bureaucratic procedures was one of the important impediments of the utilization of institutional resources.

Bhattacharjee (1987) observed shortage of institutional credit. It was found that small scale industries in general had to remain content with low capital base, depended more on non - institutional agencies like money lenders, friend and relatives and worked under stringent credit condition. The study also revealed that most of the tiny units did not maintain proper accounts of production, inventory and fixed capital which were required by the financial institutions.

Koshy, Ramachandran, Das, Basant, & Morries (2001) argued that there were strong structural underpinnings to the inadequate flow of funds to the SME sector. They argued that the organizational structure of banks in India and processes with them had taken them far from task orientation and had created a specific bias against small loan portfolios.

Rahman (2006) observed that inspite of various incentives and supportive measures taken under different industrial policies by the Central Government as well as Government of Assam, very few numbers of entrepreneurs of Assam Hills had been benefited through these schemes. The study observed that the schemes and facilities available for small scale enterprises for hills and backward areas since independence and particularly after starting liberalization process from 1991 were not found effective in the study area.

Prasain, Singh & Singh (2006) found that there were no statistically significant differences in the average of all financing entities in Manipur despite some visible variations thereon. They found that respondents depended more on family income (more than 50%) followed by government agencies and commercial banks. On the other hand, commercial banks played the main role of providing financial assistance to the industries as far as the source of borrowing was concerned. Both in the initial and latest year under study, 20.5% of the industries depended on commercial banks for institutional borrowing followed by Manipur Industrial Development Corporation (14.2%), North-Eastern Development Finance Corporation Ltd.(6.6%) etc. In their study they suggested that both the central government and state government should give wide publicity so as to reach the information to all the entrepreneurs about policies, incentives, schemes, programmes, etc., relating to small scale industries. Banking services should be available near to the enterprises and the small scale industrial units should maintain proper books of accounts by employing professional accountant.

Chakravarthi (2007) pointed out the contribution of the SME sector in India as well as in the global environment. He also clearly mentioned the financial help that had been receiving by the SME from the government of India and the World Bank. The study pointed out that the small firms were facing more problems compared to medium-size firms, which in turn were facing more problems than large firms. Bankers were reluctant to lend SMEs because of the high transactions costs, insufficient credit information, inadequate credit appraisal and risk management skills, poor repayment records and low market credibility of SMEs. He said that SMEs required a modest amount of capital to generate large employment opportunities, to stimulate economic activity within a country and to distribute the benefits of economic development. He also pointed out that inspite of various schemes announced by the SIDBI and various banks in India, SMEs were facing difficulties in raising funds due to lack of initiatives or absence of funds from financial institutions, banks, insurance companies, pension funds, high net worth individuals and various sectors.

Chakraborty & Chakraborty (2007) revealed that to meet the challenges of the 21st century, North-east India needed entrepreneurs with a global vision, who had the ability to take risks and chart out new growth paths. They also pointed out that the state government had also declared its own industrial policy to promote entrepreneurship but very little attention had been paid in creating and developing entrepreneurship.

Das (2007) observed that there was no transparency regarding the financial conditions of small and medium enterprises. Banks hesitated to give loans to small scale units. Unless fairly detailed information on small firms was available, banks would hesitate to take the risk and may preferred to lend to relatively larger firms and thus leaving smaller firms significantly constrained for capital. He also suggested that improving the quality of financial information was an important requirement for enhancing the flow of funds to the SME sector as the quality of information also influenced decisions on loan finance.

Duflo, Cole & Banerjee (2007) found that firms that newly came under the preferential lending criteria were able to obtain more loans with a consequent beneficial impact on increase in sales and these firms were previously credit constraint. They argued that firms had lower profitability and therefore banks were reluctant to lend to them.

Khadem & Dey (2007) pointed out the absence of available credit facilities to the small industries. The owners of small industries did not have sufficient capital and they could not obtain adequate financial assistance from the institutional agencies. Though commercial banks were providing financial assistance to the small-scale units under various schemes, but it was far from satisfactory.

Murali & Lakshminarasimha (2007) revealed that banks played important role to the development of SMEs but banks were not enthusiastic to finance SME sector because of poor marketing arrangements, lower adaptability to improve technology, high transactions costs, higher Non Performing Assets (NPA) level and lack of succession planning of SMEs.

Wang (2008) observed that in the era of rapid globalization, internet, local networks and support system were of particular importance in helping SMEs to meet the challenges of the changing world. The study also pointed out that due to bank's financial problems, many SME owners in addition to bank loans depended on their personal savings or the family members and friends.

Bagchi (2008) pointed out that small and medium enterprises may required funds for acquisition of capital assets, e.g., land/building/machinery/equipments etc., and /or purchase of stocks of raw materials / finished goods, extending credit to trade debtors and for other day-to-day business operations. He assessed the financial requirements of small and medium enterprises. Small and medium enterprises needed finance towards cost of fixed assets like land and building, machinery, equipment, including computers by way of loan to be repaid over a period of time generally three to five years. Working capital finance by way of cash credit / overdraft, bills finance, etc., for a period, generally of twelve months, with a provision for renewal to enable the small and medium enterprises to buy raw materials / stocks, incur day to day business overheads and to take care of sale to its buyers on trade credit terms. It was also observed that often vendors of materials insisted that the small and medium enterprise buyers arranged for a letter of credit facility from a bank.

Ganesan & Namasivayam (2008) analysed the performance of financing Small Scale Industries by commercial banks in Maduri district and the performance scores of loans grants to small scale industries by commercial banks using Friedman’s test. The result of Friedman’s test indicated that there was no significance difference in the performance of commercial banks of different classifications operating in Maduri district in lending to small scale industries. They found that state bank groups had exhibited a high range of performance score (viz., 50%) resulting a high record of achievement in finance when compared its target, followed by National Commercial Banks (49%) and Private Sector Banks (33%).

Sudarsan & Dasaraju (2010) revealed the role of Andra Pradesh State Financial Corporation (APSFC) for the development of small and medium enterprises. The study found that inspite of the assistance rendered by the corporation, 80% of the entrepreneurs faced different financial problems. Shortage of working capital and high interest rate had troubled more than 80% of them. 50% of the entrepreneurs which were located in villages were faced with shortage of working capital, 62.75% of the town enterprises found the rate of interest was high, 50% of the district head quarters enterprises were faced with shortage of working capital and 76.47% of the industrial estate enterprises were faced with shortage of working capital. They also found that more than half of the sample entrepreneurs felt that the loan amount sanctioned had been much less than their requirement. 92.50% entrepreneurs found the loan amounts sanctioned were inadequate. They were also troubled by procedural delays. Therefore they suggested that the APSFC should provide adequate finance to the enterprises with liberal collateral security without delay.

Datta & Sundaram (2011) pointed out the financial disability of small enterprises. Considering the vital role of small industries within the Indian industrial economy, the total amount of loans granted to small industries formed a very small part of the total loans to Indian industry. The flow of credit to SSI sector from public sector banks had been increased from Rs. 38110 crores in March 1998 to Rs. 49743 crores in March 2002. However, as a percentage of SSI advances to net bank credit, a declining trend was found from 15.6% in March 1998 to 12.5% in March 2002. Inspite of this assistance, they pointed out the need for a positive change in the outlook and approach of our financial institutions towards small scale industries.

Allen, Chakrabarti, Sankar, Qian & Qian (2012) examined financing patterns of different types of firms in India. They indicated that firms in the Small and Medium Enterprises (SME) sector had significantly different financing patterns from those in the Large Enterprise (LE) sector. Firstly, internal sources only accounted for about 15% of total financing for all SMEs but there existed significant variations among subgroups. Unlisted SMEs generated only 11.2% of all funding internally while listed SMEs which were significantly larger than unlisted SMEs depended on internal sources for almost 40% of total financing. Secondly, equity was the most important financing source accounted for over 30% of all funds raised for all SMEs and for listed SMEs in services this ratio was over 44%. Thirdly, SMEs overall also relied more on bank finance than those in the LE sector. In developing countries, SMEs also relied more on trade credits (15.83% annually) than large firms in India. Finally, they viewed that alternative finance, including financing from all nonbank, nonmarket sources and generally backed by non-legal mechanisms, constituted the most important form of external finance. Bank loan was the second most important external source of finance. The results indicated that bank and market finance were not superior to alternative finance in fast-growing economies such as India.

Beena (2012) analysed the financing pattern of Indian corporate sector during 1990-2009. She also identified the pattern of resource mobilisation of Indian firms. He observed that the share of internal financing had increased sharply during 2001-2005 and it accounted for 58 per cent but it had declined during 2006 -2009 to the level of 38 per cent which was still higher than the level of 26 per cent during 1991-94. The sharp growth in the share of internal financing since 2000 was attributed to the growth of retained profits. External sources contributed a major source of financing throughout the study period except during the third phase (2001-2005). Although, bank borrowings were one of the major sources of external financing till 2000s, its share had declined sharply to 15 per cent during 2001-2005 from the level of 27 per cent during 1991-94. This share had further increased to 28 per cent during 2006-09.

The study concluded that external sources contributed a major source of financing in the Indian corporate sector although there was an increasing trend in the share of internal financing since the year 2000. Retained profit contributed a major source of internal financing throughout the decade of 2000s. Borrowings or fund-raising through current liabilities was found to be the major source of external financing in the Indian manufacturing sector and Indian acquiring firms. These firms also raised resources from abroad.

Dey, Kumar & Hassan (2017) examined the financial accounting practices by the respondents in Tripura. The study found that most of the respondents did not use financial accounting tools and techniques for systematic record keeping or any kind of financial business decision making. Respondents mostly used debtor's book followed by creditor's book, profit and loss account and balance sheet. The respondents mostly used cash and bank balance for controlling purpose followed by profit and loss account and balance sheet.

Hassan, Dey & Kumar (2017) investigated the budgeting practices among the surveyed MSMEs in Tripura. They examined two aspects of budgeting practices namely awareness about the budgeting techniques among the respondents and the use of budgeting techniques in day-to-day operations of business. They observed that awareness and usage of budgeting techniques was very low among the respondents. The study found that majority of the respondents did not consider various forms of budget as important tools for controlling their business activities. Annual budget, production budget, sales budget and production budget were the important budgeting techniques used by the responding MSMEs of Tripura.

2.3 Gap in the Literature

From the above survey of literature, it appears that several studies relating to micro and small enterprises have been undertaken concerning the determinants and pattern of financing of these enterprises in outside India and India but no study has comprehensively attempted to focus on the determinants and pattern of financing in micro and small enterprises particularly in Barak Valley of Assam. Indeed, this gap in the available literature on the subject provides the rationale for undertaking the proposed study, which is analytical in nature. Most of the studies deal with the problems relating to cost of capital, availability of information on finance, collateral requirements and business risks. The studies are also related to the challenges facing by the enterprises in accessing credit facilities but no study has been found on the factors affecting procurement of finance from long term sources and short term sources by micro and small enterprises. The present study is dealt with the factors affecting procurement of finance from long term and short term sources by micro and small enterprises in the Barak Valley. The above studies also do not deal with the efficacy of various incentives from Central Government and State Government for the promotion of micro and small enterprises in Barak Valley. The present study deals with the same in details.

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