

Perceptual Measure of Growth and Development of SMEs By Subsidized Loan

Samreen Khaskheli

MBA

Mehran University Institute of Science Technology and Development (MUISTD)

Mehran University of Engineering and Technology Jamshoro Sindh Pakistan.

Correspondence Email: samreenkhaskheli@gmail.com

Abstract-- Small and Medium Enterprises (SMEs) incorporate a massive role to support the currency value of any country, hence the aim of this paper is to support the SMEs and acknowledge to government about policies, that how they're working and might scale back the uncertainty and increase the effectiveness of loan policies. I had done a survey to measure the perception of SMEs for subsidized loan. Majority of participants don't seem to be happy as they don't rely that loan maximizes the profit or useful for growth and development of SMEs. Restricted numbers of participants and extremely confidential policies of banks with participants, build a gap in result and unable it for further future analysis. Application method is hard it's a time overwhelming, needed work, proof of monetary expenditure bills and even standing on precise given time. this study is believed to be the primary, that has scientifically developed and after trial and error tested the constructs that represent a perception study on sponsored loan on SMEs.

Key words: SME's, Financial Issue, Subsidized Loan, Interest Rate, financial institute.

1 INTRODUCTION

SMEs has a significant role in the production sector and has a core value in economic growth of developing countries Musah (2015). the SMEs are known as the backbone of country economy, because SMEs has a huge contribution in countries Gross Domestic Product (GDP). It has been noticed that there is a proper money flow across the country and that of economy and a significant growth in GDP, SMEs contributes 40% share in annual GDP. SMEs are highly involved in job creation. SMEs contributes almost about 70 to 95% new employment opportunities for developing countries, and SMEs constitute about 90% of enterprises in Pakistan.

When the growth and development of SMEs occur, SMEs product are becoming more valuable in sense of qualitative and quantitative. By increasing the qualitative value of products, it boosts the demand for product, as well as becomes able for exports to other country, and increases the value of currency and GDP of any country

Instead of such importance, the sustainability or growth and development of SMEs are constrained by a number of factors like scarcity of capital goods, shortage of raw material, lack of research and development or innovational activates, marketing issues, shortage of skill, inadequate data and financial issue. Financial issue is a biggest problem faced by SMEs. Assessing finance is a big issue for SMEs, because they don't have enough resources or assets, that can be used as a source to access the finance or as a mortgage while borrowing the loan. or it can be said say that access the capital is one of the biggest and toughest tasks for the SMEs. So, SMEs has limited finance as comparable to large firms. And that limited finance is a main constraint for the growth and development of SMEs. Schmukler (2017) To overcome this problem, government and many private financial institutions are offering loan to SMEs. Usually loan provided by these financial institutions has a very high interest rate, short repayment time period, heavy mortgage requirements and insufficient loan amount. Kiplagat (2017) reveal that almost 75% of SMEs borrows

from financial institutions while 25% of SMEs do not borrow from any bank because they face difficulties while assessing the credit, remaining uses their own savings. After that Government of Pakistan offers subsidized loan that has a lower interest rate as comparable to other institution, named by Prime Minister youth loan scheme.

Prime Minister Nawaz Sharif introduced this scheme for the development of new enterprises, as for the development of country. This loan scheme is providing loan to unemployed, skilled and educated youth, under the age of 21-45, 90% of total expenditure is provided by PMYBLS, and 10% is owner equity, at subsidized rate of 6% only. Greatest time period of repayment of loan is 8 years.

2 LITERATURE REVIEW

Agarwal (2017) argued that in this modern world SMEs are suffering from many problems like raw material, marketing, financial issues etc. Financial issue is the big problem, not only for small but also for large enterprises. Due to deficiency of finance many SMEs are going in bankruptcy, further he describes it as that, bankruptcy of SMEs is due to neglecting the principle of cash by the management of SMEs, that are the main drivers of success or failures of SMEs.

Finance works like oxygen for SMEs, finance is the important resources to run and start-up of a new enterprise, because finance ease SMEs, to obtain labor, land, machine, raw material and so on to run their enterprises. A report from third censuses of India clearly indicates that downfall of registered and unregistered SMEs is unavailability of financial resource, finally he suggests that cash forecasting is essential for new SMEs. SMEs can be competitive by better financial conditions as well as then will be protected from bankruptcy.

Kiplagat (2017) concluded that financial issues are the biggest challenge for SMEs and financial institutions should inspires SMEs to keep up to date and accurate accounting records, so that SMEs remain aware from the financial performance and financial

position of their entities, as well as their ability to generate cash. Avevor (2016) explains that SMEs face a lot of challenges while accessing finance, it is a very risky sector, because they easily fluctuate as with the change in internal or external environment like inflation, taxes, demand, so that financial institutions charge them higher interest rate as comparable to large enterprises. Financial institutions do this to fulfil the level of risk of loan default.

Saša et al (2016) describes factors that effect SMEs, These factors are receivables from debtor's collection, high tax rates, complicated loan, legal issues effecting the business operations, lack of strength, weakness, threats and opportunity (SWOT) analysis, afraid from risk taking, lack of research and development, less efficient marketing area, unavailable resources, higher cost relative to large enterprises, low information system, market competition, financial knowledge etc. Among them interest rate is one of the main factors that negatively effects SMEs. And suggests that financial institution should reduce their interest rate and make ease in loan process so that majority of SMEs can be benefited.

Awan et al (2015) proves that most of loan defaults are due to high interest rate on loan, because mostly borrowers are anxious from high interest rate. He suggests that financial institutions must lower down their interest rate and gives training to their borrowers, to minimize the loan defaults.

Bernard et al (2014) states that majority of SMEs prefer to use the equity finance for their operations and growth, because they believe that interest rate is too much high on loan offered by financial institution, that will negatively affect the business growth or operation. Further he suggests that interest rate should be revised downwards to help the SMEs and ease them to make smooth repayment and increase in demand for loan, so that SMEs will be helped, and country economy will grow.

Khan (2014), States that for the past few years, prominent growth has shown in banking sector of Pakistan. From its calculation, the banking profitability has been taken as a dependent variable, whereas interest rate has been taken as an independent variable. From his analysis he proves that, there is positive relation between interest rate and profitability of commercial banks of Pakistan, means by increasing the interest rate, the profitability of banks will be increased and vice versa, however, increase in interest rate, depresses the investment and saving from individuals and SMEs, that is not beneficial for the country's economy.

Flore & François (2011) explains that for those SMEs who have already taken loan from different institution or have number of loans to pay the interest on it, that SMEs faces more difficulties and has a burden of repayment, as comparable to other SMEs.

Edakasi et al (2011) proves that SMEs with the burden of repayment of loan and interest rate, has a negative impact on the performance of businesses tasks, further he describes that the biggest weakness of SMEs is lack of entrepreneur skill and as well as information about business that is a big limitation of development and growth of SMEs.

Olawale & Obert (2010) argued that SMEs are unable to get the loan for the development and growth, because of high interest rate and difficult loan procedure, further he suggests that government should supply the funds from monetary institutions to SMEs, that results in unbelievable growth in SMEs and as in society.

Amonoo et al (2003), reveals the relationship between the interest rate, loan repayment, and demand for credit, and he proved that

there is an inverse relationship between the interest rate and loan repayment, simply when interest rate increases, it negatively affects the loan repayment. SMEs cannot afford such a huge burden of interest rate and becomes unable to repay the loan. and in case of interest rate and demand for credit, he reveals that there is also a negative relationship between interest rate and demand for credit, when interest rate increases SMEs denied borrowing the loan just because of huge burden of high interest rate. SMEs know that they can't repay it and feels more expensive, ultimately demand will be decreases for that loan.

Vogelgesang (2001) agrees with the idea of economy of scale. He suggested that with the increase in production of goods, SMEs can generate more profit and production can be increased with greater amount of loan, as much amount of a loan is greater SMEs can produce as much good for sale, and become able to decrease their cost of production too, so that SMEs can improve sales revenue or profit, big advantage of large enterprises is that they can produce large number of goods with and as profit.

3 METHODOLOGY

3.1 Problem Statement

For the start-up of new SMEs or growth of running SMEs, financial resources are required to buy new resources, There is a possibility that after efficiently and effectively utilization of these resources SMEs can get a big improvement, that will positively effect on GDP and by increasing employment and circulating the money within entire economy of a country, as well as SMEs export their goods to other countries that increases the value of currency. But lack of financial resources weakens the growth of SMEs, to fulfil the requirements of financial resources usually enterprises borrow loan from different financial institutions, at a higher interest rate and at a specified time period, but loan borrowed SMEs has to face the burden of repayment of huge interest according to strict terms and conditions. In that case government of Pakistan offered a subsidized loan, that has a low interest rate then other loan types. Now it's a question here that is this loan beneficial, in growth and development of SMEs.

3.2 Hypothesis

Prime Minister Youth business loan scheme effects on the Small and Medium Enterprise development

3.3 Parameters of Perception Measure.

The questionnaire is consisted of different parameters, given

below:

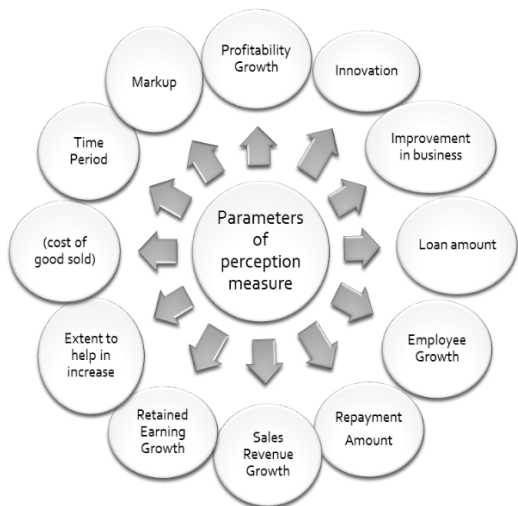


Fig 3.1 Parameter of perception measure

Questionnaire consists of 12 different parameters, that effect the SMEs growth and development internally as well as externally, positively or may be negatively. These parameters are described below.

3.3.1 Profitability Growth

Gartenstein (2018); Primary aim of SMEs is to earn profit, what profit basically is, the money earned by SMEs, by providing goods and services, or when revenue is greater than the expenses, but when SMEs expenses are higher than that of revenue, SMEs are in loss and survival is difficult for them, In that condition, either owner have to closes their SMEs or borrow loans to recover losses. Borrowing loan can be beneficial when SMEs utilize them effectively and efficiently.

3.3.2 Innovation Growth:

Cherroun (2014) Defines as change or newness in existing product, method or in technology, that increases the business efficiency and productivity.

We are living in a modern world where there is a continuous change in technology, positive or negative depends. Now customers are more aware and intelligent. As with the new technology, customers need, want as well as demands are also increasing. Customers want better and improved products then before, with a higher satisfaction level. No doubt, with innovative products that has a high satisfaction level, SMEs can increase demands of their products and as sales and become able to earns profits. Not only by increasing demand but introducing new innovative technology and methods. SMEs can reduce their expenses and costs.

For example, electricity is too much expensive now a days in Pakistan, so by introducing solar system in SMEs, that reduces the electric expenses, and profit of SMEs may increase.

3.3.3 Improvement in business:

It is a general question asked from SMEs to known, how owners are looking their whole SMEs, and decide whether the loan is beneficial for SMEs or not, is there any kind of improvements occurs in SMEs, it may lead the business to breakeven point or in

loss.

3.3.4 Loan amount:

Growth and development of SMEs are mostly depending upon the profitability, that is directly related to sales and demands of SMEs Products. This parameter used to measure i.e. is loan amount was enough to increase the sales and demands of SMEs products, or the loan amount was enough to fulfil their requirements of development and growth of SMEs.

3.3.5 Increase in Employment:

Increase in employment depends upon the SMEs growth. Obviously when SMEs grows, production will increase, and SMEs need more employee to handle its operation, and process, so employment increases as too handle the operation. So by with the increase in employment, growth of SMEs can measure.

3.3.6 Repayment amount

SMEs borrow and pay interest rate on it, now it's question here, that SMEs are capable to repay it? Does SMEs have enough resources or profitability? SMEs having enough resources or are profitable to repay the loan it's a good condition, but if SMEs are not capable enough for repayment, then it's a worst condition for SMEs, that SMEs can go in bankruptcy.

3.3.7 Sales Revenue Growth:

When sales grow, the monthly cash flow for a profitable firm will eventually turn positive, so broader the business more the risk. So, this question helps in finding that borrowers are facing level of improvement at what level or they are bearing the risk.

3.3.8 Retained Earnings Growth:

Retained earnings 'amount of money from earning, that is used to reinvest within the SMEs. Some factors directly or indirectly affect the retained earnings. Like earnings or profit, Interest rate, inflation, taxes etc. So, it will help to evaluate whether enterprises are in favors of loan or against.

3.3.9 Capital intensity (cost of goods sold)

As goods in bulk amount can reduce the cost of good, so for SMEs, buying raw material depending upon their financial conditions, and from loan amount SMEs can buy more raw material so that SMEs can minimize their cost of good. So, this parameter put to know, is loan is helpful for reduction in cost of goods.

3.3.10 Time Period:

SMEs before borrowing loan must give importance to time to repay shorter the time affects the profitability so different types of loan have different time to repay. This will help to analyses whether in subsidized loan time is satisfactory.

3.3.11 Markup:

Additional amount paid on loan on a specified interest rate and time. Subsidize loan has low markup, so it is more attractable as comparable to other financial institution. For SMEs, and demand for them is large, instead of that, still SMEs are facing problem in repayment, or whether subsidized loan is easily affordable or not?

3.4 Data Collection Method

A questionnaire consists of twelve questions of parameters, and distributed among SMEs, every single parameter defines put in

questioner, that defines the SMEs conditions after borrowing loan. And questionnaire distributed among targeted participants of Prime Minister Youth Development Scheme, and successfully collected filled questionnaires' from 54 borrowers of loan.

3.5 Research Design

To Calculate the perception survey, conducted on Prime Minister Youth Business Loan Scheme, primary information was collected for finding the truth, research questionnaire was adopted and was distributed among SMEs, that make able to evaluate the impact of subsidized loan on SMEs.

4 DATA ANALYSIS

A Strength, Weakness, Threats and Opportunity (SWOT) analysis developed to measure the role of parameters in SMEs growth and operation, Test done via SPSS software, that are 1) Frequency Distribution, to analyses the data. To calculate the perception of participants the businessmen's a Frequency distribution test was done

4.1 Analysis

(To understand and develop the SWOT analysis of parameters used in questionnaire to know how theses parameters works for SMEs and their importance)

From literature we had described it.

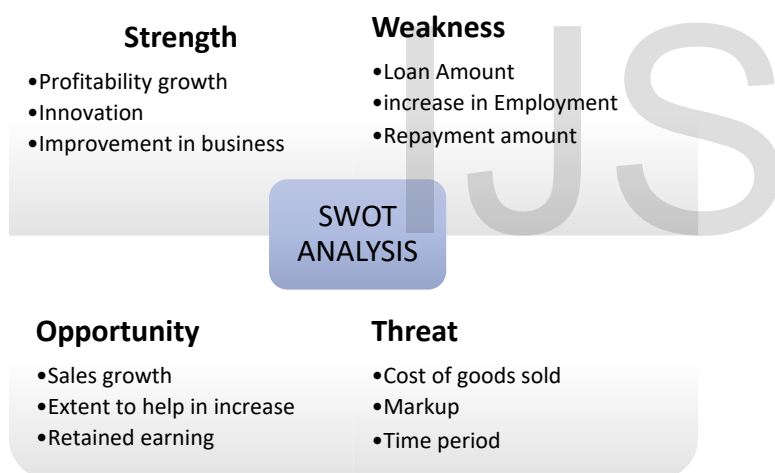


Figure 4.1 Swot Analysis

4.1.1 Strength

Profitability includes in strength, because the survival of SMEs, is depending upon the profit, SMEs are unable and even they don't wish to run a non-profitable enterprise, because, it's just a waste of time as well as financial resources.

Innovation is the strength of business because by introducing innovative products that satisfies the customers, and demand increases, because customers wants more reliable and attractive product then before, not only this but by introducing new method business can minimize the cost of products, that leads to increases in profitability and SMEs will grows.

Profitability increases by Improvement in business, due to by increasing demand or reducing the cost or by increasing the value of product of SMEs, so as for SMEs grows.

4.1.2 Opportunity

Sales growth, business will earn an enormous profit, earning will be increased by increasing in sales, the cost of goods sold will be decreased by maximizing the quantity of products as it from economy of scale concept,

extent to help in increase, growth of business leads to profitability of businesses, business grows, profitability will increase, Retained earnings, a wise method to save a money for future consideration to tap any opportunity any time, that is beneficial step for the company.

4.1.3 Weakness

Loan Amount, borrowing loan is the weakness for SMEs, because as the amount of loan increase's, interest rate increase's so, higher loan amount means higher interest rate, but SMEs borrows loan, to improve their business for a long term and a huge level, Limited Employment, hiring of new employs that are from different culture and background, experienced or unexperienced, they need time to adjust within SMEs, there is need of new employs to run the business.

4.1.4 Threat

Cost of Goods Sold, internally as well as often externally, increased wages of labour, or any labour cost, growing price raw material, indirect or direct cost, taxes, bills, that negatively affects profit, are the treats of business.

Mark-up repayment may be a huge issue because SMEs pay it, at a determined time and date, it's a burden for SMEs, as well as failed in repayment SMEs has be pay the penalty of it.

Time most significant, work on time, loan and mark-up has a stated time, SMEs need time for the earning profit

4.2 Analyses

Measuring the Extent and Perception About PMYBL of Businessmen's

Table No 1 Descriptive Statistics

		Mean	Std.Deviation
S	Profitability	2.5370	1.22417
	Innovation	3.0370	.98982
	Improvement in business	2.9630	1.13209
W	Loan Amount	2.8148	1.19865
	Increase in Employment	2.6111	.81070
	Repayment amount	2.8148	1.11717
O	Sales growth	2.6111	1.15606
	Extent to help in increase	2.5185	1.00453
	Retained earning	2.7778	1.19222
T	cost of goods sold	2.9074	1.34961
	Markup	3.5185	1.14498
	Time	2.6667	1.25893

4.2.1 Variance of Individual Item:

Variance is just a square sum of standard deviation, has been describe as square sum, variance is to measure numbers spread in data set, it calculates the distance from the mean position,

4.2.2 Descriptive Statistics:

Descriptive test to calculate the variance and standard deviation of individuals. Responded from participants, calculated through by taking the difference in each mean and set. (Statics)
This test is to figure out to those whose SMEs who has this loan scheme.

4.2.3 Mean of Individual Question

Mean value of all respondents is above

2.5 even some has 3 so it suggests the frequency distribution test.

4.2.4 Frequency Distribution:

To find out impact, the selected possibility has on each different variable.

4.2.4.1 Increase Profitability

Table No 2 Increase Profitability

	Frequency	Percent
Strongly Disagree	14	25.9
Disagree	15	27.8
Neutral	8	14.8
Agree	16	29.6
Strongly Agree	11	9

Perception from SMEs regarding profitability parameter, majority with 53.7% of SMEs says that there is no any improvement in SMEs profitability. Here it can be assuming that, many other factors also affect the profitability, like market condition, unstable market condition domestically or nationwide, unable SMEs to boost the productivity.

4.2.4.2 Innovation

Table No 3 Innovation

	Frequency	Percent
Disagree	20	37.0
Neutral	17	31.5
Agree	12	22.2
Strongly Agree	5	9.3

Perception for innovation parameter, shows that 37.0% of SMEs do not install or introduce any innovative activity, after borrowing subsidized loan. 31.5% of SMEs somewhere or at a low level introduces the innovation, 31.5% of SMEs got success in introducing innovative activities. Innovation is depending upon the creativity level or education and knowledge of SMEs.

4.2.4.3 Improvement in Business

Table No 4 Improvements in Business

	Frequency	Percent
Strongly disagree	7	13.0
Disagree	12	22.2
Neutral	13	24.1
Agree	20	37.0
Strongly agree	2	3.7

Perception for improvement in SMEs, positive response from majority of SMEs 40.7%, overall SMEs are in improved condition than before, but for 35.5% of SMEs did not get any improvement. And for 24.1% SMEs get improvement at a low level, in any department, method, operation status, structure, etc, whatever,

due to subsidized loan it shows that somewhere SMEs got improvement.

4.2.4.4 Loan Amount

Table No 5 Loan Amounts

	Frequency	Percent
Strongly Disagree	10	18.5
Agree	5	9.2
Neutral	9	16.7
Agree	23	42.6
Strongly Agree	7	12.9

Perception for loan amount, here majority 55.5% of SMEs, that loan amount was good enough, that fulfil the requirement of SMEs, and helps SMEs to improve profitability by satisfying the SMEs needs and wants, this is due to 90% of loan amount offered by government, instead of such facility no one can accept that SMEs will give negative result.

4.2.4.5 Employment Increased

Table no 6 increase in employments

	Frequency	Percent
Strongly Disagree	5	9.3
Disagree	17	31.5
Neutral	26	48.1
Agree	6	11.1

Perception for the employment increase, start-up of a new SMEs or after the growth of existing SME, new employees are hired to maintain the operation of SMEs, but, 40.8%, SMEs says that employment did not positively affect, here majority 48.1% of SMEs response as employment increases.

4.2.4.6 Repayment Amount

Table No 7 Repayments

	Frequency	Percent
Strongly Disagree	10	18.5
Disagree	7	13.0
Neutral	22	40.7
Agree	13	24.1
Strongly Agree	2	3.7

Perception for loan repayment, SMEs pay interest rate from earning or sales and it depends upon the current assets of SMEs. Only 27.8% of SMEs can pay the interest rate while for majority 40% of SMEs feels difficulty to pay, and for 31.5% are SMEs are unable to pay interest rate. So, has for majority we can assume that SMEs are not as much developed, that they don't have enough assets, or such earning, that they can pay interest rate.

4.2.4.7 Increase in Sales

Table No 8 Increases in Sales

	Frequency	Percent
Strongly Disagree	12	22.2
Disagree	13	24.1
Neutral	14	25.9
Agree	14	25.9
Strongly Agree	1	1.9

Perception for the parameter sales, that de-scribes about increase in sales, from table it is cleared that, majority of SMEs 46.3% are failed to increase in sales. Low sales SMEs face much risk then higher sale, SMEs, Sales depends upon the demand for product,

needs and wants of customers, SMEs can increase their sales by effective marketing.

4.2.4.8 Retained Earnings Growth

Figure No 9 Retained Earnings

	Frequency	Percent
Strongly Disagree	12	22.2
Disagree	6	11.1
Neutral	21	38.9
Agree	12	22.2
Strongly Agree	3	5.6

Perception for retained earnings, the earning that is used to reinvest within SMEs, some SMEs 27.8%, got success in securing retained earnings, 39.9% of SMEs fails to secure retained earnings in profitably amount. while 33.3% of SMEs does not secure retained earnings for reinvest. Retained earnings growth is necessary for the development and growth of SMEs. failure SMEs become unable to develop and grow.

4.2.4.9 Reduce in Cost of Goods

Table No 10 Reduce in Cost of Goods Sold

	Frequency	Percent
Strongly Disagree	6	11.1
Disagree	12	22.2
Neutral	18	33.3
Agree	7	13.0
Strongly Agree	9	16.7

Perception for the cost of goods sold, for majority of SMEs 33.3%, cost of goods sold do not shown reduction, and for 33.3% of SMEs do not reduce the cost of goods sold in a profitability manner 27.8% of SMEs secure success in reduction of prices of goods sold. We can assume that, SMEs do not buy raw material at a large level or are using their old method of buying and selling of raw material at same quantity without improvement in good or sales.

4.2.4.10 Enough Mark-Up

Table No 11 Enough Mark-Up

	Frequency	Percent
Strongly disagree	5	9.3
Disagree	1	1.9
Neutral	21	38.9
Agree	15	27.8
strongly agree	12	22.2

Perception for mark-up, it's enough that can be paid easily or is it high. Here majority of SMEs 50%, are in the favour of Mark-up, makeup was definitely low that is just 6%, about 60 to 70% lesser then all private financial institution that has makeup rate up rate up 14 to 18% on loan.

4.2.4.11 Repayments

Table No 12 Repayments amount

	Frequency	Percent
Strongly disagree	10	18.5
Disagree	7	13.0
Neutral	22	40.7
agree	13	24.1
Strongly agree	2	3.7

Perception for repayment, amount was enough that can be easily paid? According to 31.5% of SMEs, repayment amount was high enough, SMEs fell bit difficulties to repay it, for majority 40.7% of SMEs, it's a better choice, to reduces the repayment amount, while only 27.8% of SMEs are satisfied and can make repayments.

4.2.4.12 Time

Table no 13 time to repay

	Frequency	Percent
Strongly Disagree	9	16.7
Disagree	18	33.3
Neutral	18	33.3
Strongly Agree	9	16.7

Perception for parameter, (time was enough for repayment), 50% majority of SMEs have difficulties in repayment at a specified time. According to few, just only 16.7% of SMEs thought that, it is easy to handle, but for majority, they didn't think so.

5 DISCUSSIONS

Instead of low interest rate still SMEs are not much satisfied with scheme, this is due to highly complicated producers, and long duration, and mostly loan payment received after start-ups of SMEs, after care-fully checking the receipts, that are discouraging the new SMEs. From majority of SMEs, they are satisfied with low interest rate but just by only one point doesn't mean as an overall satisfaction.

5.1 Findings

Research on Prime Minister youth development program shows that majority of loan borrowers are not satisfied, however some about 40% are somehow satisfied, further this research clearly shows that loan was not taken to make any kind of growth and development within SMEs, like it's not for to increase the sales, or any of innovative methods, but it's like to maintain the operations of businesses.

On other hand, majority of loan borrowers are satisfied with interest rate, where there is no doubt that interest rate is less then all others institution that is 6% whereas from private institution its 15%, further loan amount also comes in satisfaction lev-el that is 90% of equity and only 10% is from owner.

5.2 Recommendations

Interest rate must be on fixed instalments rather than fluctuating, Reimbursement Plans must be according to income, interest rate should be charged according to the profit earns by SMEs. No penalties on pre or late submission of interest rate specially for low income SMEs. And Partially Loan Understanding If the Receiver Chooses Public Service, Protection policies must be adopted in case of Ruin and Tragedies of SMEs. Remove un necessary formalities, from loan application, to make loan application procedure easier. Time of repayment should be supported, according to financial status of SMEs. Keep site and supervise SMEs for a better financial management.

5.3 Limitations

Highly confidential polices of banks towards customers, banks are very prudential towards their customers, never uncloses the data of their customers, so. Targeted audiences are not in much numbers and questioner filled by bank on its own behalf. Data

collected only within Hyderabad region not country wise. Loan amount is issued after start-up of SMEs, so result is so.

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