JOURNAL OF CRITICAL REVIEWS

ISSN- 2394-5125 VOL 09, ISSUE 01, 2022

A Study on Small Enterprise Financing Gap in North East India: An Extensive Review

Manoj Khaund[1], Research Scholar, Dept. of Management North Eastern Hill UniversityE-mail- manojkhaund@yahoo.com

Dr. Bimal Deb Nath[2], Assistant Professor, Dept. of Management, North Eastern Hill University
E-mail- bimal.dn@gmail.com

Abstract

The small enterprises play a vital role in terms of generation of revenue, employment generation, reducing regional imbalance and facilitating exports Not only from the revenue point of view but also from the viewpoint of regional development, the small enterprises play a very crucial role. Despite having such vital importance to a Nation, it has been seen that the development of small enterprises is hampered by a diversity of problems. In context of the India in in general also these problems are more or less similar. One of the major problems which is faced by the small enterprises across North Eastern Region of India is access to funds. This paper reviews the existing literature and theories of financial gaps in small enterprises across North Eastern Region of India and aims to understand the specific requirements of small enterprises. The paper examines on a phase wise requirement for small enterprises with an aim of reducing the existing financial gap.

Keywords: Small Enterprise, Finance Gap, Requirements, Phases

Introduction:

Numerous studies have been found that small businesses have played a major role in the country's economic development and accounted for about 7 percent of GDP and accounted for about 30 percent of total exports and 45 percent of production units. Small businesses are very important in developing countries. This is because small businesses are able to create jobs. However, lack of sufficient funding is a major obstacle to their growth (Maiti, 2018). This small sector has recorded high growth rates since 1947 despite strong competition in the larger sector (Saith, 2001) and has mobilized a large number of workers, efficient use of resources, and new technologies, promoting inter-sectoral communication, increased exports and reduced regional inequality. More importantly nationally, it has been shown that small business development is hampered by a variety of problems, especially in emerging economies such as India as a whole (Wang et al., 2007), (Taunk & Kumar, 2014).

The North Eastern region of India in particular has many small businesses that serve as a major source of income and employment, meet a few restrictions and this hinders the growth of small businesses in the region. According to a few researchers (Megu, 2007; Saikia, 2007) the most common problems include lack of funds, inadequate funding, lack of operating funds, lack of marketing channels and outdated technology. The problems of small businesses are very similar in the region. Assam as the largest province in the region also faces similar challenges. It is evident that over time, small businesses in the region have been fighting for their health and development.

Most small businesses may not have the necessary collateral for conventional bank loans, or a return high enough to attract working capitalists and other risky, unknown, and chronic investor risks, such as credit problems and "Small Enterprise Finance Gap" claims - especially in developing countries like India. and in developing areas in the North Eastern region of India in particular.

Therefore, this paper seeks to first examine the financial gap of small businesses and emphasize the needs of small businesses in developing countries in the North East region, and ultimately focus on phase wise needs of the small business sector in North East India.

The Literature Review:

The institutional financing of small enterprises has always been an area of much debate. A number of researches conducted over the world have focused on small enterprises. For the purpose of the study, this section firstly focuses on the studies related to issues in small enterprises financing, secondly reviews the financing scenario and requirements of small enterprises in North Eastern Region of India in access to funds and also identifies the current finance gap in small enterprises for the purpose of the study.

Issues in Small Enterprise Financing:

Many courses are designed for small businesses dealing with the financial gap problem. This section emphasizes the existence of the financial gap and its nature in relation to the financial difficulties of small businesses.

ISSN- 2394-5125 VOL 09, ISSUE 01, 2022

The existence of a funding gap was first identified in the United Kingdom by a Macmillan committee, set up by the government to review the British financial system in 1931 (Bryson and Buttle, 2005. Cressy (2002) offers two legitimate ways to define finance. The common denominator is a funding gap such as a market failure, an appropriate policy response which is an increase in the value of the loan. and this was the Financial Gap thus making the difference between the amount of money companies need to operate and for growth and the amount of money they spend actually earn.

Cull et.al, 2005 stated that the most common explanation for the incomparable nature of small businesses in poor countries today is that they cannot afford to raise money. They point to a study by the World Bank that confirms that large firms everywhere have more access to bank, domestic and foreign credit, than smaller firms, and that these rely heavily on internal funds and savings. They also claim that countries where small businesses access foreign resources are those with high financial systems, suggesting that there may be a causal relationship between financial development and business performance. Traditionally, details of asymmetry, which can be ex-ante or ex-post (Rajan & Zingales, 2003), exist between all businesses and outsiders. Ex-ante information asymmetry exists prior to financial disbursement and restricts financial resources while ex-post asymmetry information automatically increases and makes money more expensive by increasing transaction costs incurred on borrowing and credit institutions (Roberts, 2015). However, both ex-ante and ex-post asymmetry of information between Small Businesses and External Partners are often very difficult. Small businesses, in general, also have no access to large financial markets, other than financial institutions, where they need external support. As a result, small and medium enterprises tend to experience the effects of any funding gap. The small business financing gap is particularly acute in developing countries (Collier, 2009; Dong & Men, 2014; Sacerdoti, 2009; Vasilescu, 2010).

According to Peria (2009), small and medium enterprises find it extremely difficult to obtain banking and other legitimate financial resources in developing countries. Poor financial infrastructure and macroeconomic features cause this bank deficit (Peria, 2009; Sacerdoti, 2009). Coad and Tamvada (2011) pointed out that although labor and market problems are more prevalent in large businesses, small and medium enterprises appear to be at high risk for financial problems, demand, lack of capacity, equipment and equipment and management problems.

There are many obstacles to the growth of small businesses, one of which is the lack of funding. Although financial constraints are some of the biggest obstacles to the growth of all firms (Ayyagari et. Al, 2005; Quartey, 2003), small businesses face difficulties and difficulties in accessing finance growth than large firms (Beck and Demirkuckunt, 2006; Ayyagari, & Maksimovic, 2005; Carpenter and Peterson, 2002).

It is evident that both the available research and the strong evidence have shown that businesses do not have access to adequate funding to support their operations and growth and this practice is considered a financial gap (Brown & Lee, 2014; Bungey, 2017; Predkiewicz, 2012). Further research on the financial gap was conducted in two ways. The first highlights the cause of the financial crisis, especially in the provision of goods. An important aspect of this view is that the details of asymmetries and the acquisition of small businesses put financial institutions at risk. Even if funds are available, the same items should increase transaction costs which makes them more expensive, and therefore less profitable, for small businesses to access. From small business demands such as preferences and information gaps to effective financial resources available, they are the main factors contributing to the lack of funding for small businesses. Aside from having large documents in small businesses and the financial challenges they face, there has been little consensus of these studies in the review.

The few that exist focus only on the characteristics of small businesses and their financial resources small businesses that fund one country (Mensah, 2004), financial constraints (Beck, 2007) or conduct meta-analyzes of powerful studies investigating the financial performance of small businesses (Kersten et al., 2017). Westhead (1997) in their study highlights that the problem of capital shortages in the small business sector is partly due to the distribution of resources through the resources available to owners and managers. Some of the key factors that lead to a lack of funding include loan resources, asset prices, industry structure, project planning, interest rate, market situation.

The problems of small businesses are similar or less common in India. The small business sector in India is different, fragmented, and especially unorganized. One of the main challenges for small businesses is inadequate access to credit and reduced operating costs Alamelu and Baskaran (2011). Yadav (2012) in their study reported that bank financing was considered the most effective source of small business support with a maximum value of 94 per cent followed by savings of 81 per cent and others. It was also found in a study that 79 percent of Small

Businesses reported that banks were unwilling to provide loans and of banks ‟21 percent were considered negligent to assist Small and Medium Enterprises (SME) firms.

Naidu and Chand (2011) reported that small businesses find it difficult to compete with their larger counterparts and access the various financial services offered that hinder their growth and survival. Surprisingly, current research shows that the resources available to small businesses are almost identical to those found in large firms. The challenge for small businesses is that they face more challenges to access than large firms (Beck, 2007; Berger & Udell, 2006; Dong & Men, 2014), especially in developing countries (Dong & Men, 2014; Sacerdoti, 2009; Vasilescu, 2010). Most small and medium-sized businesses are not listed on the stock market and therefore do not have access to large markets (Berger & Udell, 1998; Dong & Men, 2014; Wagenvoort, 2003). Therefore, they do not have to make the information public. This enhances the asymmetry knowledge that exists between small and medium enterprises and their external stakeholders; a long fact established by Stiglitz & Weiss (1981), and emphasized in many studies. In general, SME financial resources may be legal or informal, internal or external, equity or debt, short-term or long-term (Eniola & Entebang, 2015; Hansedar et.al 2014)

In addition, the weaknesses found in small businesses and the lack of transparency in financial data make the lending process difficult for Small Businesses. Moon (2012) also added that in addition to the RBI's promotional measures, there has been a high level of NPAs in the sector which has led to the persistence of debt barriers in the sector. Batra & Sharma (2009) argued that due to their weak financial position, vague details of business plans and accounting statements, the creditability of small businesses cannot be obtained and therefore are considered high-risk borrowers by investors and banks. Reddy (2007) believed that insecurity, insecurity, ignorance and a lack of money were said to be a major threat to the credit crunch by small firms.

In the above literature, two themes of the study have emerged for the purpose of this research related to the financing of small businesses. First, the weaknesses found in small businesses, the need and lack of visibility of financial data make the credit process difficult for small businesses. Second, lending infrastructure has significant implications for small businesses access to credit and better lending infrastructure can significantly improve small business access to credit by facilitating the use of various lending technologies. Therefore, the current study focuses on the phase wise requirements of small businesses in North Eastern India to make credit access and credit delivery process much easier.

Requirements of Small Enterprises in North Eastern Region of India and Financing accessibility:

North East India carries a special significance in regard to natural resources and so industry and commerce. The small enterprises are the major sources of revenue for this region. However, it is seen that despite having such vital importance to the region, the small enterprises face a ton of problems. In addition to limited development of industries in North East India, there is limited availability of data on whatever industries exist there. Around 54 per cent of industrial units of North-eastern states are concentrated only in Assam which is the largest State in the entire North East (Khanka, 2009). The problems of small enterprises in Assam and other parts of North Eastern Region are more or less similar. Assam being the biggest state in the entire North East has many small enterprises which act as a major generator of revenue and employment, are encountering a few problems which are hampering the growth of this region (Megu, 2007). Considering this, the present study has considered small enterprises of Assam as representative sample of entire North East for the present study. Assam stands at 15 out of 28 states in India with respect to number of unregistered Small enterprises and at 18th position in case of registered Small enterprises as per the census carried out in 2006-07 (Final Report on Fourth All India Census of small enterprises – Unregistered Sector 2006-07, 2011). There are 37,356 registered small units in Assam providing employment to 2.05 lakh persons (Economic Survey of Assam 2013-14, 2014). The SLBC data showing the credit disbursals towards the small enterprises sector by commercial banks and other financial institutions in Assam for the year 2014- 15 as a percentage of their total credit disbursements do not show a favourable picture for the small enterprises.

There are many scholars who have conducted studies on small enterprises in Assam and have highlighted that the most prominent problems include lack of access to funds, inadequate collateral, working capital finance shortfalls, absence of marketing channels and obsolete technology. Khanka (2009) in his study highlights that about 80 percent of small enterprises are lacking growth because of poor financing and the factors identified for funds accessibility are the stringent conditions set by financial institutions, lack of adequate collateral and credit information and cost of accessing funds and other associated factors. Sharma (2011), Storey & Westhead (2007) in their study highlights that the capital shortage problem in the small firm sector is partly one, which stems for the uneconomic deployment of available resources by the owners and the managers. Some of the important factors that lead to inadequate funds constitute sources of loans, mortgage values, structure of the industry, project planning, interest rate, market condition.

Day & Rahman (2013) has observed that the small-scale sector has been afflicted by extensive sickness, main reason being the problem of finance followed by marketing. Khanka (2009) in his study observed that the development of Small enterprises in Assam is at a low level because of inadequate infrastructural facilities, problems of finance, marketing and insurgency. He has suggested that for industrial development in Assam, government should create infrastructural facilities like transport, communication, power, provide adequate means for obtaining finance smoothly and assist is marketing of the products and services of such enterprises in order to make congenial climate for industrialization.

Khadim & Choudhuri (2018) observes the profile of small sector in South Assam comprising three districts- Cachar, Hailakandi and Karimganj. A large number of small enterprises established under DICs in these three districts have been observed to be sick. Findings reveal that many small business units were found either non-functioning or closed due to reasons like lack of adequate credit, scarcity of raw materials, power problems, faulty marketing techniques, inadequate technology, improper infrastructure and a high level of competition in the market.

Baruah & Barman (2000) opined that finance is considered as the prime factor and is the life blood of any business enterprise. The flow of institutional finance in Assam is still at very low ebb when compared with its flow in many other States of the country (Bharadwaj, 2000). Kishore (2015) reveal that due to lack of collateral/ guarantee and financial data, small enterprises have difficulties in raising funds from commercial banks and other financial institutions. It was also opined that banks should support well-defined credit analysis techniques for providing financial support to small businesses on a long-term basis. Instead of focusing only on financial figures and collaterals, the banks should understand the actual conditions under which such enterprises operate so as to make those enterprises more viable and efficient.

Thus, from the above it can be observed that the requirements of small enterprises are vivid in nature. In every activity, they have separate requirements which cause a major source of problem on their growth and operation. Access to finance is seen as a major requirement and also as a major source of concern for these enterprises.

ISSN- 2394-5125 VOL 09, ISSUE 01, 2022

Current Financing Accessibility:

Currently, financial constraints still exist in small businesses in the Northeastern Region of India, which are mainly reflected in the following two aspects: first, funding mechanisms are not disrupted. Small business financing channels include internal and external funding (Saikia & Dutta, 2012). The first is about internal finance, small businesses influenced by their circumstances and existing policies with limited funding resources, which can meet the financial needs of their rapid development. External funding is available through bank loans, share financing and bond financing (Saikia & Dutta, 2012) (Pradhan, 2007). However, the way in which a financial institution lends to small businesses in particular is long-term and has a small unsecured loan. Hazarika (1995) observed that small lending businesses make up the lower part of the total loan component. In addition, the security market is not yet fully operational, the funds raised by the issuance of shares and bonds are thus not fully operational. Second, financial structure is irrational. Financial structure refers to the portion of money collected by businesses through various channels, in particular, by the business owner's capital, budget, principal debt, bank loans and the formation of other loans. Khanka (2009) in his study emphasizes that in the current financial structure of small businesses in Northeastern India, business accumulation itself plays a large part, and there is a small portion of foreign investment. The money needed to increase production capacity comes mainly from accumulating their business. This single financial structure has severely limited the rapid growth of businesses. In foreign finance, small businesses often prefer to apply for loans, especially loans and secured loans, and bank loans are actually short-term loans, medium and long-term development funds cannot be met, all hindering business development.

Reasons for Receiving Financial Problems:

From the studies reviewed it is very clear that small businesses have to deal with a series of problems. Needs are also clear in nature and most importantly consider that needs and problems have stood the same and naturally in the last few years and their existence can be traced back to the early 1950s.

In this section we have tried to identify the current reasons for small business financing in. A few important reasons are given as follows: -

a) The reason for the analysis of small businesses themselves:

Small businesses in Northeastern India are generally managed by the family, ownership and management are very focused and the organization is simple. In this case, business management, management and monitoring powers are focused on business executives at a management level that determines the future of the business and there is a specific operational risk. Due to the lack of management mechanisms, if there are errors in the manager's decision, a major impact and even a catastrophic disaster will bring business. At the moment, the basic financial information of small businesses is internally, opaque, and some companies and even complex intellectual frauds make it difficult for investors to understand the real financial situation and business performance, making investor interests completely insecure and prone to breach (Sharma, 1990; Khanka, 2009; Saikia & Dutta, 2012)

b) Small businesses restrict bank lending:

Few studies (Sharma 2007; Storey and Westhead 2007) have shown that bank loans are often required to provide full financial resources, compared to large businesses, small businesses produced with small amounts, a small amount of fixed assets, and a limited amount of collateral that can be provided, some businesses even produce by renting equipment and machinery. There is no collateral and we cannot find a guaranteed business, banks are unwilling to accept liquid assets as collateral, it is difficult for a business to meet the conditions of bank lending, which undoubtedly increases the difficulty in lending money to small businesses.

c) Lack of collateral:

Khanka (1998), Khakanka (2009) in both studies have shown that in the case of credit financing, lenders often seek collateral to reduce the risk associated with risk. Lack of collateral is probably the most widely identified barrier to small business access to finance. The amount of collateral required in relation to the size of the loan is a standard that is regularly accepted to vigorously assess the seriousness of the financial gap. In some cases, an entity may not be able to provide sufficient collateral because it is not established sufficiently strong. That issue has much to do with the high-risk case outlined above. In some cases, the lender may realize that the amount of the loan is insufficient due to the amount of the loan requested. In other words, the proposed expansion project can be very large compared to the current factory size. Lack of collateral can be seen more as a sign than a direct reason for the strained relationship between these businesses and financial providers. Regardless of the sequence of causes and effects, widely accepted in this part of the world, the problem of collateral is extremely difficult.

Almost everything prevents the existence of promising property owners as collections. Therefore, collateral additions are very important.

d) Lack of financial institutions for small businesses:

Small businesses in some regions especially in Northeastern India are very large and are widely distributed; the need for the capital is at an all-time high, which requires building a comprehensive system for small and medium-sized financial institutions to provide financing support, but they one-sidedly seek after bigger and stronger, blindly support large enterprises and ignore the small enterprises who should be mainly supported (Roy, 2012; Reddy, 1991; Sehgal & Aima, 2011)

From the above, it can be seen that considerable work has been done on the small enterprises sector. But limited research has been done for small enterprises located in North Eastern Region. Moreover, the present literature only focuses on highlighting the problems but comprehensive solutions for the same has not been incorporated in an extended manner. The research work done in this region mostly concentrates on managerial skill development and only limited study focuses on the finance gap in small enterprises financing which is a major hurdle for growth and success of a small enterprise.

The Financing Gap:

From the above reviews, it is very clear that the needs of small businesses in North East India are very large. The available literature presents a general need and focuses on three aspects namely finance, marketing and technology and business symbols.

There are many viewers who have sought a “funding gap” for small businesses which means that there are a small number of small businesses that can spend money productively if they are available, but cannot earn money from the formal financial system. Access to finance is often cited as a serious obstacle, with little difference between the regions of the developing world. An additional fact that ensures a good correlation between the size of the firm and the size of the debt barrier is the easy availability of bank debt reported by large firms. All available documentation focuses on highlighting small business problems but fails to provide a specific solution to problems as well. It has been noted that there are detailed shortcomings, with a direct focus on each category of small business and their needs focused on those specific phases of the business cycle need to be addressed as a means of closing the financial gap - business requirement.

A Phase wise classification:

It has been observed that the problems and needs of small businesses in northeastern India are almost identical to those of other parts of the country. Numerous studies have identified the critical needs of these businesses and have identified major problems that hinder their growth and success. However, these studies have courses that focus on highlighting the problems of small businesses but fail to provide a specific solution to the problems as well as the problems of these businesses remain the same.

Therefore, in this section we have tried to understand the concept of smart classification for the needs of small businesses during each phase of their business cycle is seen as a step to reduce their problems for small companies in this Indian region.

Phases of Small Enterprises Business Cycle:

All States at all levels of income have set a policy goal of ensuring that small businesses have access to adequate income. These priorities are based on policy makers' perceptions that small businesses are important in the economy and a lack of sound funding can be a major barrier to the development of the sector (Ahmed & Hoffman, 2008). This section discusses a set of specific needs that small businesses have met at various stages of their business since its inception. The business life cycle involves going through several stages: start-up time, aging time, development time, posture and descent time. In all of these cases, the business is at risk and is subject to risks, such as a lack of management skills, financial inequality and a failure to keep up with innovation in the industry. Various researchers agree that the organization goes through various stages of the life cycle, however, the debate over how many and which stages of the cycle are still unsettled. The number of stages of an organizational life cycle varies from 3 to 10 (Sherman, 2014) (Marcia and Josselson. 2013) (Falkena et al., 2002). For the purposes of this study, the categories of business life have been reduced to three and are described below. The business life cycle sections are accepted and modified from Thierry Janssen's white paper in the seven stages of the business life cycle. This is summarized in the first stage, the growth phase, the maturation phase and the exit phase.

Phase One: (Seed Capital Finance):

The first phase of a business is the most difficult phase, characterized by excessive reliance on internal finances from owners, managers, family and friends. Financial return is a minor factor in the concern of entrepreneurs at this stage and the prestige of businesses and personal obligations is of paramount importance. The funds required in this category are usually referred to as Seed Capital Finance (Morris et al., 2002) (Haankuku, 2016).

Vojnović and Riznić (2009) found that businesses today are severely crippled by a lack of financial information, a lack of knowledge and a lack of financial resources. Significant financial needs of a small business during this period include a decision on the composition of the held capital and borrowed capital. In addition, in the event of a loan the essential parameter includes the amount of the loan, the sources of the loan, security or mortgage with respect to capital, interest rate and repayment period. The second most important financial need in this category includes research and development funding. Research is the backbone of any business and any organization to be successful requires proper research. Small businesses also face the daunting challenge of acquiring land and building it. Land and construction costs are a very important factor and require considerable investment. Through the production process, any business needs machinery and equipment. Another important investment that small businesses need in this category is capital funding. Another important financial need in this small business category includes start-up costs, legal costs and organizational funding.

The Growth Phase (Development Finance):

In the growth phase, a business has a growing revenue, customers and opportunities to make a solid profit. Competition is entering the market and one of the biggest challenges a growing company is facing is the problems of wasting time and extra money (Ramaswamy & Gouillart, 2010)

Timmons and Spinelli (1994) have drawn a good correlation between business downtime and the level of financial risk associated with an entity. In the early stages, this also affects the financial resources available to the business and the financial costs of the business. As the business grows and becomes financially viable, job-related risks decrease and as a result, access to legitimate financial markets increases. This is confirmed by a study by Vojnović and Riznić (2009) which shows a positive relationship between the size and age of a business and its financial accessibility. Financial requirements in this category are generally divided into Fiscal Needs and Fiscal Requirements. Flexible investment is usually required for procurement, procurement, personnel capacity and technological improvement. On the other hand, operational finance requirements include short-term production financing, employee salaries and marketing and promotional costs.

The Expansion Phase:

The integration and stabilization phase, also known as the life cycle phase, is characterized by a new period of growth that opens up revenue streams and revenue channels and is called the expansion phase (Timmons & Spinelli, 1994). At this stage the critical monetary need of Small Businesses includes Marketing Funds as an entity looks at the top marketing of their products and services. Marketing funds are usually separated from promotional and distribution funds. Key marketing aspects that are commonly considered by the business community include market needs, market support and market assistance. Incremental contributions play a major role in the success of a business. Various promotional tools include various financial forms. Another important financial need at this time includes Transport finance. Transport costs can be summarized in vehicle finance, distribution finance and final financing (Aryeetey et al., 1994) (Gatti, 2012) (Cummins & Mahul, 2008)

Maturity and Exit Phase:
During the exit period, also known as the maturity phase, the business is challenged by declining sales figures and profits remain stable. It can choose to choose new businesses or completely exit the market. Funding requirements at this level are assessed according to the business model (Timmons & Spinelli, 1994), for example, if new approaches are introduced to generate more cash streams and return to the growth / expansion phase, those are funded above but if the business operates out of the market, self-financing may be considered appropriate. . The funds required in this category include purchases and flexible currencies.

Financial Requirements for Small Businesses in Different Stages of Life Cycle:

In this section, we have tried to identify the major financial needs of all small businesses in each phase of their business cycle. These requirements apply to all small businesses in the Northeastern region of India. The essential requirements during each phase of their business cycle can be highlighted as follows: -

Start-up Stage: Businesses in this category have reported spending on personal and family resources, from friends, and government and other sources mainly for monetary use. One of the most widely reported uses of the institution's resource were public funding banks. This means higher readiness or resistance to risk, or both, when starting a business.

Survival Phase: Operating costs, temporary loans, and overspending were the main objectives when businesses in the survival phase sought financial assistance. Operating funds were obtained mainly from public banks and financiers, followed by private and private banks. Private banks have also been used to protect short-term loans and over-performing services. The practice of using legitimate or reliable informal sources seems to continue from what is reported by businesses in the first phase. Businesses in this category will be looking to pay off debts, which will require them to operate efficiently on a daily basis.

Growth Phase: Businesses in this segment need operating capital, financing, and short-term loans. Operating funds were obtained from public banks, private and family sources, and to a lesser extent from private and partner banks. Collateral funding is available from public banks, and to a lesser extent in cooperative banks. Private and some partner banks use short term loans, although the use of lenders has been secured. This consideration probably meant that businesses were more focused on their financial needs and the resources needed to meet them. As partner banks are also cited as the source of meeting the many financial needs of businesses in this area, consideration should be given to whether these banking policies and procedures are appropriate to provide immediate access to the short-term financing required by businesses to grow the sector.

Subsequent Phase: Businesses in this category have reported the use of funds from private funds, co-operatives, community banks etc. It has been observed that a few cooperative banks have also been used for security funding and to obtain loans of short-term nature. Working capital, security financing, and other short-term loans dominates the scenery of necessities of these businesses at this stage. An enterprise in this stage would choose to borrow from sources with which it has well-established relationships and those which could be trusted. Enterprises at this stage reported the dominant use of cooperative banks for working capital, collateral financing, and short-term loans, and it would be interesting to examine the reasons for this prevalence.

A number of sources of finance were not used by enterprises in different stages of the life cycle. Enterprises from all four stages did not avail themselves of financing from angel investors, other entrepreneurs, foreign banks, initial public offerings, pawnbrokers, and venture capitalists.

In the survival stage, the number of unused sources of finance was more pronounced than in other stages, suggesting that enterprises operating in this stage were quite risk opposed and rely on breaking even with current level of investment, which had been financed previously by other sources.

Challenges in Accessing Small Enterprises Finance:

Along with the requirements, the small enterprises have to go through various challenges across each stage. Some of the important challenges faced by these enterprises can be highlighted as follows: -

Start-up Phase: Major challenges to accessing finances reported by businesses in this category include difficulties in providing collateral or collateral, time to process loan applications, lack of information on available programs, and process problems, as such. Businesses also realized that the high cost of applying for a loan and the difficulty in finalizing the required documents were a challenge. Businesses in this stage may not be able to provide collateral for loans and have no knowledge of the programs available, which may prevent them from choosing the most effective method of financial assistance.

Survival Phase: The major challenges faced by businesses in this phase are similar to those reported by businesses in the first stage, although the order was different. Difficulty providing collateral or warranty and procedural problems with very rated rating. The four long-term issues of processing, lack of information on available schemes, service fees for processing loan applications, and difficulty in completing the required documents were measured to be the same contest. Businesses in this category often look to be more resilient in terms of initial investment, and would like to grow in their markets. They will therefore need operating funds to meet their daily needs. These businesses are not expected to provide collateral, and may be hampered by complex procedures and delays in repayment of loans. They also continue to lack information about available financial aid programs.

Growth Phase: Major challenges reported by businesses in this category include lack of information on available programs, loan service processing fees, difficulty in securing a mortgage or guarantee, high interest rates, and difficulty in completing the required papers. As there will be operating costs and short-term business loans at this stage, a lack of information about certain programs may prevent owners from making the most appropriate choice for their business. While business owners are more inclined to seek legal financial assistance, service fees and high interest rates may be a barrier. Businesses in the growth phase will also be in a state of rapid transformation so the need to provide financial assistance can be a barrier to accessing finance.

Sustenance Phase: Common financial challenges reported by businesses in this category include difficulties in securing collateral or guarantees, process problems, lack of information about available programs, length of time to process loan applications, high cost of processing loan applications, and difficulty completing required documentation. Fair trade also reported that high interest rates were a challenge. Although entrepreneurs in this category report procedural difficulties, processing time, and high levels of interest being challenges in accessing finance, the role of lack of information about available programs and their impact on other challenges needs to be considered. Entrepreneurs were concerned about the need for collateral or security. This suggests that banks or lending institutions need to address the realities of lending to small businesses already established in the market. In summary, small businesses face many challenges at each stage of the life cycle. Each funding issue is rated as a challenge for at least one business in both the early stages and growth. In the survival phase, entities did not perceive infrastructure, personnel, labour law enforcement, or business registration as challenges in accessing finance. Businesses in this category are able to find enough employees and infrastructure. Businesses in the food category may have existing accounts, so they did not realize that this would be a challenge.

Therefore, from the above it can be said that small businesses have to face many challenges in their business cycle and these challenges pose a significant risk to their growth and development. Adequate funding is still serving as a major source of obstacle leading to an increase in the financial gap in their business activity and will be a major risk to all small businesses in the region.

Discussions:

The insights from the above books and the authors' views provide some insight into the financial situation of small businesses. However, there is still much to be learned about small business finances. Studies show a combination of quantitative and qualitative aspects of small-funded small businesses.

Although the existing texts have been completed with explanatory studies, yet another issue remains unresolved. The laws and regulations of the government of the country, the laws and related policies, the standard of living, the international economy etc. are important things to consider. There is still much to be learned about the choice of small businesses with certain financial resources in some cases. In addition, and most importantly, what regulatory frameworks are technologically empowered financial resources, why and how these new financial resources can change the financial environment of small businesses, what types of regulations may support certain funding options, financial resources vary between developed and developing countries etc.

In addition, one of the most discussed areas for small business development especially in Northeastern India is the needs of small businesses. There are a variety of articles and journals that provide information on the needs of small businesses in general but fail to highlight specific ones. The three most important requirements for the success of any business include finance, marketing and technology. However, existing articles fail to provide a specific and detailed way to meet these needs.

It is evident that the financial source used by an entity depends on its current stage in the business life cycle. Four categories are identified: onset, survival, growth, and nutrition. First-rate businesses use funds from personal, friends, and family savings, especially for financial purposes. They use public sector banks to raise operating funds and funding. Funds are obtained from reliable informal sources (personal, family, and friends) as well as trusted official sources (public banks). Especially in the case of reliable unreliable sources, there will be less pressure if there are difficulties in payment. Survival-style enterprises use cash operators and public banks, followed by private and private banks, primarily for financial purposes. Private banks and lenders are also used to protect short-term loans. Businesses in this sector will be looking for a breakdown in terms of investments made and will therefore want to meet their needs through informal and informal resources. Short-term requirements may be obtained from private banks and investors due to their reasonable availability and immediate disbursement. Growth businesses use public banks to obtain operating and subsidized funds, and use private banks for temporary loans. The relocation of private banks is likely due to the high demand for finance and the increase in business capacity at this time to cover higher financial costs. Cooperative banks are also used for short-term loans and financing. Business owners are better able to meet specific financial needs from specific sources. The level of environmental conservation in financing is reflected in the use of reliable informal sources (personal and friends' assets) and official sources (public banks and cooperative banks) of operating funds in this category as well. Common challenges facing business financing in the early stages and survival stages include difficulties in the provision of collateral or collateral, long-term loan processing, and a lack of information about available programs. Businesses in these two categories had not yet fully established their businesses and were therefore not in a position to offer collateral or security or tolerate complex loan processes. In the growth phase, the biggest challenges in accessing finance were the lack of information about available schemes, the cost of service processing of loan applications, difficulties in providing collateral or collateral, and high interest rates. The financial needs of businesses looking to expand and grow into new markets may vary, and they may look for short-term loans that can be borrowed at competitive prices. This is also a stage where entrepreneurs have felt the limitations of not considering the options available in terms of small business finance schemes due to their ignorance in the early stages of their business life cycle. For subsistence-based businesses, the biggest challenges are the difficulty of providing collateral or collateral, procedural problems, lack of information about available programs, and long processing times for loan applications. Lack of knowledge of available financial schemes, as well as investment requirements, is a common challenge at this stage, as in other categories. It is evident that financial institutions may insist on partnerships from established businesses for a period of time, and that favours are not considered sufficient.

Government has a major role to play in the success of any business and to reduce the funding gap for small businesses. They should develop financial awareness with adequate and timely information regarding various small business plans. Additionally, they should try to minimise the required papers to seek financial assistance and there is an urgent need to reduce the legal compliance burden on small businesses by at least the first three years. The financial institutions should change their attitude from being just moneylender than to a partner. They must try to establish long-term relationships with those small enterprises that have the potential to be successful. One of the urgent needs is to relax the collateral and explore alternatives to collateral especially from enterprises in the early stages of life cycle. There should be measures for documentation reduction.

It is also observed that most of the studies have focused on highlighting the problems of small enterprises in general and very few studies have been conducted regarding the funding gap in the North East India. The existing literature highly provides for a scope to study phase wise requirements of small enterprises in order to reduce the funding gap.

Conclusion:

Small Enterprises are important for all section of the economies. They are of utmost importance to the entire region of North East India. However, they face many sustained funding constraints. Here we have tried to present a picture of extant literature on small enterprises financing in different stages of their business cycle and suggested steps in reducing the finance gap in terms of phase wise financing for small enterprises of North East India.

References:

Ayyagari, M., Demirgüç-Kunt, A., & Maksimovic, V. (2008). *"Formal versus informal finance: Evidence from China"*, World Bank Working Papers Series 4465.

Aryeetey, E., Baah-Nuakoh, A., Duggleby, T., Hettige, H., & Steel, W. F. (1994). *Supply and demand for finance of small enterprises in Ghana*. World Bank.

Ahmad, N., & Hoffmann, A. (2008). *A framework for addressing and measuring entrepreneurship*.

Beck, T., Demirgüç-Kunt, A., & Pería, M. S. M. (2011). Bank financing for SMEs: Evidence across countries and bank ownership types. *Journal of Financial Services Research*, *39*(1–2), 35–54. doi:10.1007/s10693-010-0085-4

Beck, T. H. L. (2007). Financing constraints of SMEs in developing countries: Evidence, determinants and solutions. In *Financing innovation-oriented businesses to promote entrepreneurship Unknown Publisher*.

Berger, A. N., & Udell, G. F. (2006). A more complete conceptual framework for SME finance. *Journal of Banking and Finance*, *30*(11), 2945–2966. doi:10.1016/j.jbankfin.2006.05.008

Brown, R., & Lee, N. (2014). *Funding issues confronting high growth SMEs in the UK*. Edinburgh, UK: Institute of Chartered Accountants of Scotland. ISBN 9781909883055.

Bryson, J. R., & Buttle, M. (2005). Enabling inclusion through alternative discursive formations: The regional development of community development loan funds in the United Kingdom. *The Service Industries Journal*, *25*(2), 273–288. doi:10.1080/0264206042000305457

Bungey, J. (2017). Plugging Africa's SME funding gap: Is Africa different in terms of our financial needs? *Finweek*.

Carpenter, R. E., & Petersen, B. C. (2002). Is the growth of small firms constrained by internal finance? *Review of Economics and Statistics*, *84*(2), 298–309. doi:10.1162/003465302317411541

Collier, P. (2009). Rethinking finance for Africa's small firms. *Private Sector & Development, Proparco's Magazine*, *1*, 3–4.

Cummins, J. D., & Mahul, O. (2008). *Catastrophe risk financing in developing countries: Principles for public intervention*. World Bank.

Cull, R., Davis, L. E., Lamoreaux, N. R., & Rosenthal, J. L. (2006). Historical financing of small- and medium-size enterprises. *Journal of Banking and Finance*, *30*(11), 3017–3042. doi:10.1016/j.jbankfin.2006.05.005

Day, N. B., & Rahman, M. (2013). *Micro and small enterprises in NE India problems and perspects*.

Dong, Y., & Men, C. (2014). SME financing in emerging markets: Firm characteristics, banking structure and institutions. *Emerging Markets Finance and Trade*, *50*(1), 120–149. doi:10.2753/REE1540-496X500107

Eniola, A. A., & Entebang, H. (2015b). SME firm performance-Financial Innovation and challenges. *Procedia - Social and Behavioral Sciences*, *195*, 334–342. doi:10.1016/j.sbspro.2015.06.361

Gatti, S. (2012). *Project finance in theory and practice: Designing, structuring, and financing private and public projects*. Cambridge: Academic Press.

Hanedar, E. Y., Altunbas, Y., & Bazzana, F. (2014). Why do SMEs use informal credit? A comparison between countries. *Journal of Financial Management, Markets and Institutions*, *2*(1), 65–86.

Haankuku, C. (2016). *A comparison of alternative financing models for small and medium scale enterprises (SME's) in different phases of development* [Doctoral Dissertation].

Kersten, R., Harms, J., Liket, K., & Maas, K. (2017). Small firms, large impact? A systematic review of the SME finance literature. *World Development*, *97*, 330–348. doi:10.1016/j.worlddev.2017.04.012

Khadim, M. E. H., & Choudhury, S. R. D. (2018). Record keeping practices of micro and small enterprises in cachar district of Assam: An empirical study. *Indian Journal of Accounting*, *50*, 49.

Khanka, S. S. (2009). Motivational orientation of Assamese entrepreneurs in the SME sector. *The Journal of Entrepreneurship*, *18*(2), 209–218. doi:10.1177/097135570901800204

Marcia, J., & Josselson, R. (2013). Eriksonian personality research and its implications for psychotherapy. *Journal of Personality*, *81*(6), 617–629. doi:10.1111/jopy.12014

Mensah, S. (2004). *A review of SME financing scheme in Ghana*. Accra: UNIDO.

Megu, K. (2007). *Development issues in North-East region*. Mittal Publications.

Morris, M. H., Schindehutte, M., Walton, J., & Allen, J. (2002). The ethical context of entrepreneurship: Proposing and testing a developmental framework. *Journal of Business Ethics*, *40*(4), 331–361. doi:10.1023/A:1020822329030

Peria, M. S. M. (2009). Bank financing to SMEs: What are Africa's specificities? *Private Sector & Development*, *Proparco's Magazine*, *1*, 5–7.

Predkiewicz, K. (2012). *Is it possible to measure a funding gap? Research Papers of the Wroclaw University of Economics*, *271*.

Pradhan, Q. (2007). Empire in the hills: The making of hill stations in colonial India. *Studies in History*, *23*(1), 33–91. doi:10.1177/025764300602300102

Rajan, R. G., & Zingales, L. (2003). The great reversals: The politics of financial development in the twentieth century. *Journal of Financial Economics*, *69*(1), 5–50. doi:10.1016/S0304-405X(03)00125-9

Ramaswamy, V., & Gouillart, F. J. (2010). *The power of co-creation: Build it with them to boost growth, productivity, and profits*. Simon & Schuster.

Roberts, M. R. (2015). The role of dynamic renegotiation and asymmetric information in financial contracting. *Journal of Financial Economics*, *116*(1), 61–81. doi:10.1016/j.jfineco.2014.11.013

Sacerdoti, E. (2009). Credit to the private sector in Sub-Saharan Africa: Developments and Issues. *Private Sector & Development*, *Proparco's Magazine*, *1*, 8–12.

Sarmah, P. C. (1990). *Financial management of the small tea growers in Assam a case study of undivided Sibsagor district* [Doctoral Dissertation].

Saith, A. (2001). From village artisans to industrial clusters: Agendas and policy gaps in Indian rural industrialization. *Journal of Agrarian Change*, *1*(1), 81–123. doi:10.1111/1471-0366.00004

Saikia, B., & Dutta, B. M. (2012). Extent of globalization in India economy and its impact on north-eastern region. *Global Journal of Research in Management*, *2*(2), 25.

Sharma, P., & Gounder, N. (2013). Obstacles to bank financing of micro and small enterprises: Empirical evidence from the Pacific with some policy implications. *Asia-Pacific Development Journal*, 19(2), 49–75. doi:10.18356/baf1ef41-en

Sherman, H. J. (2014). *The business cycle: Growth and crisis under capitalism*. Princeton: Princeton University Press.

Taunk, A., & Kumar, A. (2014). Fear and challenges faced by small scale industries of India in the World of globalisation. *Global journal of human*. *Social Science Research*.

Vasilescu, L. G. (2010). Financing gap for SMEs and the mezzanine capital. *Economic Research-Ekonomska Istraživanja*, *23*(3), 57–67. doi:10.1080/1331677X.2010.11517423

Wang, C., Walker, E., & Redmond, J. (2007). *Explaining the lack of strategic planning in SMEs: The importance of owner motivation*.

Westhead, P., & Storey, D. J. (1997). Financial constraints on the growth of high technology small firms in the United Kingdom. *Applied Financial Economics*, *7*(2), 197–201. doi:10.1080/096031097333763

****