REVIEW OF LITERATURES

Ayozie Daniel Ogechukwu (2010)- Developing countries, the government is turning to small and medium scale industries and entrepreneurs, as a means of economic development and a veritable means of solving problems. It is a seedbed of innovations, inventions and employment. Entrepreneurship is as old as Nigeria and had contributed to the growth of the economy. Presently in Nigeria, SMEs assist in promoting the growth of the country’s economy, hence all the levels of government at different times have policies which promote the growth and sustenance of SMEs. This paper identifies the orientation of SME’s and entrepreneurial trends in Nigeria, tackles the operational definition and scopes, and describes the role of the Nigerian government as a participant, regulator and facilitator, both legally and politically in the growth of SMEs and entrepreneurship.

Bakker, M. R., Klapper, L., Udell, G. (2004)- The anti-crisis packages and accompanying measures address, in many countries, the financing problems of SMEs. The measures put in place by countries can be classified in three different groups: (a) measures supporting sales and preventing depletion of SMEs’ working capital such as export credit and insurance, factoring for receivables, tax reductions and deferrals, and better payment discipline by governments, (b) measures to enhance SME’s access to finance, mainly to credit through bank recapitalisation and expansion of existing loan and credit guarantee schemes; (c) measures aimed at helping SMEs to maintain their investment level and more generally their capacity to respond in the near future to a possible surge in demand through investment grants and credits, accelerated depreciation, and R&D financing.

Bryan Kelly and Hanno Lustig (2011)- Investors in option markets perceive the financial sector to be too-systemic-to-fail. They price in a substantial collective government bailout guarantee, which puts a floor on the value of the financial sector as a whole, but not on its individual members. The guarantee makes put options on the financial sector index cheap relative to put options on its member banks. The basket-index put spread rises fourfold from 0.8 cents per dollar insured before the financial crisis to 3.8 cents during the crisis for deep out-of-the-money options. The spread peaks at 12
cents per dollar, or 70% of the value of the index put. The rise in the put spread cannot be attributed to an increase in idiosyncratic risk because the correlation of stock returns increased during the crisis. Sector-wide tail risk, partially absorbed by the government’s collective guarantee for the financial sector, lowers the index put prices but not the individual put prices, and hence can explain the basket-index spread. A structural model quantitatively matches these facts and indicates that as much as half of the value of the financial sector during the crisis. The model solves the problem of how to measure systemic risk in a world where the government distorts market prices.

**Chandrima Das (2009)**- A brief concept of factoring. Its Start up time, Its advantages and disadvantages .The reason for factoring gaining its importance day by day. Nascent stage of factoring in India, but slowly increasing its edge and importance. How the increasing competitive mindset helping factoring to spread its arm in the banking sector .A study on who are the players in factoring market in India ,how do they function .The upcoming trend of factoring in India .Different challenges faced by different factors coming into factoring business.

**Demirgue-Kunt, Maksimovie, (2002)**- structural changes within the banking sector had put additional constraints on SME lending for financial intermediaries. One tool to mitigate these constraints and to improve the access to finance for SMEs is SME loan securitisation [in both forms: synthetic (mainly for capital relief purposes; only the risk of the portfolio is transferred) and true sale (mainly for funding purposes; originator sells a homogenous set of assets)]. This rather young market segment is now suffering from contagion effects from the general adverse securitisation environment, including uncertainties stemming from methodological adjustments by the rating agencies. Although exaggerations in the securitisation industry have caused the financial crisis, this market in general played and plays an important economic role but is currently severely affected. For the SME loan securitisation as a niche market segment, the investor base is now limited to specialised investors and the number of new transactions that came to the market in Europe in 2008 and so far in 2009 has significantly decreased. The new synthetic SME loan balance sheet transactions in some countries are driven by Basel II and only the mezzanine tranche(s) are offered, whereas the other tranches are retained by
the originators. The majority of true sale securitisations are retained by banks mostly for the purpose of accessing central bank liquidity.

**Dennis, W. & L. Fernald (2001)**- There are major differences between medium-sized enterprises on the one hand, and very small or micro-enterprises on the other. The primary focus of this Report has been on small and medium-enterprises rather than on the micro-sector, and the acronym ‘SME’ is thus used throughout. However, micro-enterprises play a critical role in income generation in the lives of many South Africans and the Task Group has not ignored this group. In fact, many of the Task Group’s proposals would be beneficial to micro-enterprise finance as well. For instance, improvement in the competitive environment in the banking sector and a more “enabling environment” for non-bank lenders would also contribute to better access to finance for the very small and micro-enterprise sector.

**Djankov, McLiesh, Shleifer, (2005)**- Promoting SMEs can have many dimensions and goes far beyond the simple granting of finance. In particular, the experience of other developing countries provides ample evidence of the importance of non-finance policies (such as the importance of establishing economic linkages). Factors that come to mind include the development of horizontal relationships (for example, industrial clusters) aimed at improving the market environment for small enterprises; the development of vertical linkages with larger domestic enterprises, principally through subcontracting agreements; or the development of new interfirm networks that increase the small-scale sector’s capacity for dialogue in relation to macro-level policy.

**Fisman, R., Love, I., (2003)**- Intangible assets are recognized as the key drivers of growth in the global knowledge economy of the 21st century. This applies to all levels of human activity: corporate, regional, national or supranational. Therefore regions and nations that put in place proper measurement and evaluation systems that help to manage and develop important intangible assets will gain competitive edge. It is hard to understand why we have precise knowledge about the number of cows in Europe, but we have very weak information about the number and quality of relationships between universities and businesses. Why we spend sizeable resources to compute regional GDP
data with a two-year lag, which becomes almost irrelevant from the policy monitoring viewpoint, and at the same time we do not implement cheap and simple technologies that will give easy-to-use access to collected data to every EU citizen. Before voting in local elections citizen would like to know whether average travel time to work has gone up or down, waiting line to the doctor has increased or decreased, pupils in schools are doing better or worse. And informed citizen should be able to compare this outcomes over time and between various countries, cities or regions.

Flamholtz, E. & Y. Randle (2000)- Due to SMEs’ limited access to securitized forms of financing, banks play a crucial role for SMEs’ external financing. Bank credit restrictions therefore affect SMEs more severely than large firms. In this context, the conference addressed several interesting aspects in this context: First, do bank loans and trade credits affect SMEs’ investment behaviour differently? Second, what effects for credit supply can be expected from rating rules under Basel II, and how can SMEs adjust to this new framework? Third, to what extent can risk diversification effects be expected to come into play in banks’ SME credit portfolios? Fourth, if banks’ internal credit rating systems differ, might this result in different credit ratings for one and the same SME, and might this in turn prompt “credit rating arbitrage” on the part of SMEs? Fifth, what are the mutual relationships between macroeconomic developments and firms’ financial fragility? And finally, to what extent can “group borrowing”, e.g. in the form of mutual guarantee schemes, help SMEs to secure more favourable credit ratings.

Hanno Lustig (2007)- To explain the low-frequency variation in US equity and debt returns in the 20th century, we solve an equilibrium model in which households face housing collateral constraints. An increase in the ratio of housing to human wealth loosens these borrowing constraints. Borrowing enables risk sharing and decreases the rate of return that households require for holding equity. Feeding the historical time series of US housing collateral into the model replicates four features of long-run asset returns. (1) It produces a fifteen percent equity premium during the 1930s and a slow decline of the equity premium from eleven percent in the 1960s to four percent in 2003. (2) It generates large unexpected capital gains for equity holders, especially in the 1990s. (3) The risk-free rate and the housing collateral ratio are strongly positively correlated at low
frequencies. (4) The model mimics the slow decline in the volatility of stock returns and the riskless interest rate.

**Hanno Lustig and Adrien Verdelhan (2010)** - We set up an exponentially affine stochastic discount factor model for bond yields and stock returns in order to estimate the prices of aggregate risk. We use the estimated risk prices to compute the no-arbitrage price of a claim to aggregate consumption. The price-dividend ratio of this claim is the wealth-consumption ratio. Our estimates indicate that total wealth is much safer than stock market wealth. The consumption risk premium is only 2.2 percent, substantially below the equity risk premium of 6.9 percent. As a result, the average US household has more wealth than one might think; most of it is human wealth. Nearly all of the variation in total wealth can be traced back to changes in long-term real interest rates. Contrary to conventional wisdom, we find that events in bond markets, not stock markets, matter most for understanding fluctuations in total wealth.

**Jack Favilukis and Sydney Ludvigson (2011)** - a two-sector general equilibrium model of housing and non-housing production where heterogeneous households face limited risk-sharing opportunities as a result of incomplete financial markets. The model generates substantial variability in national house price-rent ratios, both because they fluctuate endogenously with the state of the economy and because they rise in response to a relaxation of credit constraints and decline in housing transaction costs (financial market liberalization). We find that a financial liberalization plus an infusion of exogenous capital calibrated to match the increase in foreign ownership of U.S. Treasuries from 2000-2007 generates more than half of the increase in three out of four national house price-rent ratios over this period. A financial market liberalization drives risk premia in both the housing and equity market down, shifts the composition of wealth for all age and income groups towards housing, and leads to a short-run boom in aggregate consumption but a short-run bust in investment. By contrast, an infusion of foreign capital by governmental holders increases risk-premia in both the housing and equity markets. Finally, the model implies that pro-cyclical increases in equilibrium price-rent ratios reflect lower future housing returns, not higher future rents.
**Jack Favilukis and Sydney Ludvigson (2012)**- The last 20 years have been marked by a sharp rise in international demand for U.S. reserve assets, or safe stores-of-value. This paper analyzes the welfare consequences of these fluctuations in international capital flows in a two-sector general equilibrium model with uninsurable idiosyncratic and aggregate risks. The model implies that the young benefit from a capital inflow due to lower interest rates, which reduce the costs of home ownership and of borrowing against higher expected future income. Middle-aged savers are hurt because they are crowded out of the safe bond market and exposed to greater systematic risk in equity and housing markets. Although they are partially compensated for this in equilibrium by higher risk premia, they still suffer from lower expected rates of return on their savings. By contrast, retired individuals, who are drawing down assets and who receive social security income that is least sensitive to the current aggregate state, benefit handsomely from the rise in asset values that accompanies a capital inflow. Under the veil of ignorance, newborns gain from foreign purchases of the safe asset and would be willing to forgo up to 1% of lifetime consumption in order to avoid a large capital outflow.

**Jack Ralph Koijen and Roine Vestman (2012)**- We construct a new consumption measure as a residual from the budget constraint. Consumption is that part of income that is not used to increase assets. Our measurement relies on detailed Swedish registry data on the various sources of income and the composition of households' asset portfolio, collected as part of the tax assessment process. The richness of the data allow us to impute a household-specific portfolio return, which is important to arrive at an accurate consumption measure with our method. We match the Swedish households that are surveyed with a standard European Household Budget Survey to our data set, allowing a detailed comparison of the two consumption measures. We find that the survey-based measures understate consumption for home-owners, high-income, and high-wealth households. Survey-based consumption appears unbiased for the average renter and, if anything, slightly understates consumption for the youngest and poorest in our sample. Taken together, the survey understates consumption inequality. Separately, Swedish car registry data on car transactions indicate severe reporting biases in the survey.
Karita Luokkanen, Rodrigo Rabetino (2005) - This study focuses on SMEs’ strategic changes in dynamic environments. In order to deeper understand these changes, the specific characteristics of SMEs’ strategic behaviour, and the interaction of internal and external factors are included simultaneously in the analysis. The conceptual framework is based on studies of strategic adaptation and SMEs’ strategic behaviour. The empirical research consists of three longitudinal case studies in the Finnish furniture industry, for which processes are analysed. The data analysis reveals that strategic changes are the result of multiple, overlapping processes. In short term, firms’ responses to environmental stimuli often look like reactive tactics. However, in a longer time orientation, owner-managers were able to identify and implement new ideas and projects in their business environment. Additionally, owner-managers’ ways to make strategic decisions in turbulent situations seems to be based more on experience and intuition instead of being calculated and planned.

Khaled Soufani, (2001) - The role of factoring in small business finance and the profile of firms using it. The analysis refers to a comprehensive survey of UK providers of factoring services. This identifies the relatively focused provision of factoring in terms of size, age, sector and stage of growth of the client base (ie businesses) using this financial service. For those using factoring, the service may provide a valuable improvement to cash flow and working capital position and can possibly contribute to small business growth and development. In its present format, however, factoring is not the potential financial solution for all firms across all industries.

Klapper, L (2006) - investigate a specific issue relating to capital requirements for banks’ SME loan portfolios, namely the diversification potential within large portfolios of SMEs. Extending the standard one-factor credit default model to multiple factors, which takes into account size, sector and location, they compute economic capital allocations for large portfolios of French SME loans. They find that two opposing effects are at play when estimating aggregate credit risk for an SME loan portfolio: on the one hand, diversification decreases economic capital; on the other hand, a more complete representation of default rate dynamics in such a framework increases economic capital. As to be expected, portfolio risk diversification in large SME loan portfolios depends on
the heterogeneity of the firms in the portfolio, in particular in terms of cyclicality or industry, and size. They conclude, first, that the standard one-factor model and its applications do not properly take into account potential diversification effects in an SME loan portfolio. Second, however, a model that takes into account diversification effects might still generate higher required capital levels, because it captures credit risk better.

Leora Klapper (2006)- A challenge for many small and medium sized enterprises (SME) is access to financing. In particular, many SMEs find it difficult to finance their production cycle, since after goods are delivered most buyers demand 30 to 90 days to pay. For this duration, sellers issue an invoice – recorded for the buyer as an account payable and for the seller as an account receivable – which is an illiquid asset for the seller until payment is received. Factoring is a type of supplier financing in which firms sell their credit-worthy accounts receivable at a discount (generally equal to interest plus service fees) and receive immediate cash. In addition, factoring is often done “without recourse”: the factor that purchases the receivables assumes the credit risk for the buyer’s ability to pay. In this case, factoring is not a loan and there are no additional liabilities on the firm’s balance sheet, although it provides working capital financing. Hence, factoring is a comprehensive financial service that includes credit protection, accounts receivable bookkeeping, collection services and financing.

Love, Inessa, Lorenzo A. Preve, and Virginia Sarria-Allende. (2006)- Reverse factoring can mitigate the problem of weak information infrastructures if only receivables from high quality buyers are factored (such as foreign, internationally accredited firms). In addition, the reduced risks associated with reverse factoring makes it possible for firms to factor without recourse, which can reduce firms’ exposure to the credit risks of its customers.

Another advantage of reverse factoring is that it provides benefits to both lenders and buyers. In many countries banks offer factoring. In this case, factoring enables lenders to develop relationships with small firms (with high quality customers). This may provide cross-selling opportunities and allow lenders to build credit histories on small firms that can lead to additional lending (for fixed assets, for example). The large buyers may also benefit: by engineering a reverse factoring arrangement with a lender and providing its
customers with working capital financing, the buyer might be able to negotiate better terms with its suppliers. For example, buyers may be able to extend the terms of their accounts payable from 30 to 60 days. In addition, the buyer benefits from outsourcing its own payables management.

**Marcin Kacperczyk and Laura Veldkamp (2011)**- At its core, this is an information-processing industry. If they are skilled, active fund managers choose what stocks or macro trends to research (allocate their attention) and use that information to pick stocks or time the market. The difficulty in testing any attention theory is that information choices are not observable. Our main contribution is to overcome this difficulty by specifying an equilibrium theory with a rich set of predictions and testing these predictions in the data. Although its key ingredient is attention, the theory is testable because it links cyclical fluctuations (observable) to optimal attention allocation (unobservable) to optimal investment strategies and returns (observable). Consistent with the theory, we find that in recessions, funds' portfolios (1) co-vary more with aggregate payoff-relevant information, (2) exhibit more cross-sectional dispersion, and (3) generate higher returns. The results suggest that some, but not all, fund managers process information in a value-maximizing way and that these skilled managers outperform others.

**Marcin Kacperczyk and Laura Veldkamp (2011)**- Mutual fund managers can outperform the market by picking stocks or timing the market successfully. Previous work has estimated picking and timing skill, assuming that each manager is endowed with a fixed amount of each and found some evidence of picking skills and little evidence of timing skills among successful managers. This paper estimates skill separately in booms and recessions and finds that the extent to which managers focus on stock picking or market timing fluctuates with the state of the economy. Stock picking is more prevalent in booms, while market timing dominates in recessions. We use this finding to develop a new methodology for detecting managerial skill. The results suggest that some but not all managers have skill. We describe the characteristics of the skilled managers and show that skilled managers significantly outperform the market.
McMillan, J. Wooddruff, C. (1999)- The incentives of rival firms can also affect the leverage-performance relation when information asymmetries between a start-up firm and its lender(s) are large and when the start-up is highly dependent on the financing decisions of its bank. In industrial organization and corporate finance papers on this topic, a lot of attention has gone to the signal-jamming predation hypothesis, arguing that industry rivals may have incentives to distort the quality signals of firms to their financiers, for example through initiating a price war, if the expected payoff from such predatory behavior is positive for the predator.

Michael Bowen, Makarius Morara, Samuel Mureithi (2009)- Small and Micro Enterprises (SMEs) play an important economic role in many countries. In Kenya, for example the SME sector contributed over 50 percent of new jobs created in 2005 but despite their significance, SMEs are faced with the threat of failure with past statistics indicating that three out five fail within the first few months. This study sought to understand how SMEs manage the challenges they face. These challenges seem to change (evolve) according to different macro and micro conditions. This study employed stratified random sampling to collect data from 198 businesses using interviews and questionnaires. The data was analysed descriptively and presented through figures, tables and percentages. The findings indicate that SMEs face the following challenges; competition among themselves and from large firms, lack of access to credit, cheap imports, insecurity and debt collection. Credit constraint seems to be easing up when compared to previous researches. Relevant training or education is positively related to business success. The SMEs have the following strategies to overcome the challenges; fair pricing, discounts and special offers, offering a variety of services and products, superior customer service and continuously improving quality of service delivery. The research concludes that business success is a consequence of embracing a mix of strategies.

Mika Pasanen (2005)- The aim of this study was to identify SME failure factors and trajectories. The empirical study was based on in-depth interviews with the ex-entrepreneurs of 12 failed SMEs. The results reveal that several factors related to the entrepreneurs, the firms and their environments were associated with SME failure. There
were also more firm-type specific factors contributing to SME failure. Moreover, three types of failure trajectories were identified: (1) failed borderline cases; (2) rapid collapse failures; and (3) failed seekers of legitimacy. The results indicate that many factors associated with failure are internal, and so under the management’s control. One or a few major factors seem to cause firm failure, though there are several inter-related factors and processes contributing to SME failure. In many cases, the root cause of failure can be traced to problems in management and to the lack of strategic management in particular.

Oya Pinar Ardic, Nataliya Mylenko, Valentina Saltane (2011)- In the aftermath of the global financial crisis of 2008–2009, there has been an increased interest in the role of small and medium enterprises in job creation and economic growth. However the lack of consistent indicators at the country level restricts extensive crosscountry analyses of lending to small and medium enterprises. This paper introduces a new dataset to fill this gap in the small and medium enterprise data landscape. In addition, it provides the first set of results of analyses with this new dataset, predicting the global small and medium enterprise lending volume to be $10 trillion. The bulk of this volume, 70 percent, is in high-income countries. On average, small and medium enterprise loans constitute 13 percent of gross domestic product in developed countries and 3 percent in developing countries. Note that although a unique small and medium enterprise definition does not exist, differences in definitions across countries are not statistically significant in explaining the differences in small and medium enterprise lending volumes.

Rachida Justo, Alberto Maydeu and Julio O. De Castro (2005)- Using a model-based approach, this paper re-examines the measurement of entrepreneurial activity at the national level. Our contribution centres on two main aspects. First, our study allows for the measurement of the likelihood of entrepreneurial behaviour, or entrepreneurial propensity. Second, utilizing social network theory, we introduce the social entrepreneurial environment as a key indicator of likelihood of entrepreneurial activity. Using the data provided by the Global Entrepreneurship Monitor (GEM) project, we provide an alternative measure of entrepreneurial activity which includes entrepreneurial social environment, assumes the existence of a continuum in entrepreneurial behaviour and provides a measure of entrepreneurial propensity. Results indicate that our model
provides support for the combined use of entrepreneurial propensity and the entrepreneur’s social context.

**Ralph Koijen and Hanno Lustig (2010)**- We propose an arbitrage-free stochastic discount factor (SDF) model that jointly prices the cross-section of returns on portfolios of stocks sorted on book-to-market dimension, the cross-section of government bonds sorted by maturity, the dynamics of bond yields, and time series variation in expected stock and bond returns. Its pricing factors are motivated by a decomposition of the pricing kernel into a permanent and a transitory component. Shocks to the transitory component govern the level of the term structure of interest rates and price the cross-section of bond returns. Shocks to the permanent component govern the dividend yield and price the average equity returns. Third, shocks to the relative contribution of the transitory component to the conditional variance of the SDF govern the Cochrane-Piazzesi (2005, CP) factor, a strong predictor of future bond returns, price the cross-section of book-to-market sorted stock portfolios. Because the CP factor is a strong predictor of economic activity one- to two-years ahead, shocks to the importance of the transitory component signal improving economic conditions. Value stocks are riskier and carry a return premium because they are more exposed to such shocks.

**Ruta Aidis and Arnis Sauka (2005)**- An issue gaining importance in transitional literature is the need to develop entrepreneurial capabilities through a thriving small and medium-sized enterprise (SME) sector. However, it can be argued, that in order to successfully develop SMEs it is important to understand the specific barriers they encounter at different transition stages. Though there are a number of studies on SMEs in transition countries, no systematic analysis has been conducted on the effects of different types of barriers to SMEs at different stages of transition. In this paper we address this knowledge gap. We utilise indicators proposed in previous research to approximate three transitional stages to categorise 23 transition countries into transitional stages.

**Syed Wajahat Hussain Naqvi (2011)**- It is appreciated that each business has its own unique combination of critical success factors, but some are important for all businesses. First small businesses should have a ‘global outlook’. Businesses of all sizes across the
globe can interact and share information, technology and products. Small businesses should consider what global trends are affecting availability of resources, increasing or decreasing demand for products or service and where there is an unfilled need one might be able to meet. This may prove a challenge to SMEs but the government can step in here to provide information on business trends.

Van Horen, N., (2004)- This brief review of intellectual capital methodology shows that there is no standard of measurement. Each country or scientist uses different definition, different set of indicators, basing on his/her subjective judgment. Therefore at this stage the intellectual capital methodology cannot be easily used for policy planning and evaluation as such. There are no commonly accepted standards and empirical evidence is scarce. However, as shown below, the intellectual capital methodology and framework can be used to improve the EU evaluation and policy planning in the new financial perspective.

Yaqub, M. Z, and Hussain, D. (2010)- The Review uncovered profound competition problems and inefficiencies in the market for money transmission services. Some of these problems will be only too familiar to bank customers: slow clearing cycles for cheques and automated payments, and high charges for cash withdrawals. Others are less evident, but just as important: for example the three quarters of a billion pounds of interchange fees paid in the UK each year, and the way in which full participation in payment schemes is nearly always restricted to banks. Innovation is stifled and the system has proved slow to adapt to an e-commerce environment. Many of these problems can be traced back to the structure of the UK payment systems market which consists of a series of unregulated networks, mostly controlled by the same few large banks who in turn dominate the markets for services to SMEs and personal customers.