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Title: Bank Lending to Small Business in India: Analyzing Productivity and Efficiency

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Highlights: Ms Ref. No.: QUAECO-D-15-00192. Harri Ramcharran

- Methodology, based on “money as an input in the production function”, we estimate the efficiency of bank lending to SME in India.
- The results have important policy implications regarding capital allocation and risk management since bank loans are the main source of financing SME.
- The results indicate increasing productivity (output elasticity) of bank credit from 0.76 to 1.23; the productivity of labor is negative, but increases from -1.57 to -0.628.
- The SME sector's efficiency improved from returns to scale of -0.89 to 0.607 mainly due to the increasing productivity of bank credit. The decrease in the number of “sick” units with large outstanding debt apparently contributes to this improvement.

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