

Impact of Institutional Financing on Small Enterprise Growth: Evidence from India and Meghalaya

Dr.Shimti.Kharmawphlang

Assistant Professor Department of Commerce North Eastern Hill University Shillong, Meghalaya

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ABSTRACT

The competitive strength of small business depends largely on the availability of funds for implementation of appropriate strategy. The paper explores the critical relationship between financial institutions and the growth of small enterprises, with a specific focus on India and the state of Meghalaya. It examines how institutional financing impacts small-scale industrialization, addressing key research questions such as the correlation between small enterprise growth and institutional financing, the influence of financial factors, and the role of bank branches and credit-deposit (C/D) ratios. The study employs correlation, and regression models, over a 37-year period (1976–2013). The findings reveal a significant positive correlation between institutional financing and small enterprise growth in terms of units, capital investment, and employment, both at the national level and in Meghalaya. However, challenges such as credit constraints, lack of proper documentation, and limited entrepreneurial skills hinder the sector's development, particularly in Meghalaya. The study also highlights the need for improved financial accessibility, capacity building, and policy measures to address these barriers. It concludes that while institutional financing plays a pivotal role in fostering small enterprise growth, a more inclusive and supportive financial ecosystem is essential for sustained development.

Keywords: Small Enterprise Growth, Institutional Financing, MSMEs, MSE Financing.

I: INTRODUCTION

Intellectual capital might be regarded as the most important capital for a large conglomerate or multinational business organization who can afford to push financial capital to the back burner but financial capital continues to be the first and foremost capital for a small entrepreneur for the simple reason of limited or no access to the organized financial markets. Empirically, as learned from the review of literature, it has been observed in many developing regions that one of the main reasons for industrial backwardness and poor development is the lack of funds for investment. The competitive strength of small business also to a large extent depends on fund availability for implementation of appropriate strategy. Accordingly, both developed and developing nations have prioritized making adequate finance available in their financial systems for small entrepreneurs to enable them not only to set-up their ventures but also to undertake various diversification and modernization activities. In this backdrop, an attempt has been made in this paper to describe the role of financial institutions in promotion and development of small enterprises and the extent the financial institutions have contributed towards this endeavour in the state of Meghalaya. Further, a probe has been made to find out the extent and nature of relationship between industrial financing and small enterprise development in the context of India and the state of Meghalaya.

The research questions pertaining to the industrial financing and small enterprise development in the context of India and the state of Meghalaya that need to be addressed are identified as following;

- *Is small industrial growth in terms of all the common parameters related to institutional financing? If related, what is the magnitude and nature of that relation?*
- *What are the various financial factors influencing the growth of institutional financing for small enterprises?*

The present study under the title “*Impact of Institutional Financing on Small Enterprise Growth: Evidence from India and Meghalaya*” intends to answer the above research question.

To resolve the research questions identified as above, the study has been planned to highlight the institutional finance in relation to growth in small scale industrialization in India and Meghalaya. Accordingly, the broader objectives have been formulated as here under;

1. To find at the respective level the relationship between the small enterprise growth and the growth in institutional financing for small enterprises.
2. To suggest some guidelines to improve the MSE financing system in India as well as the state of Meghalaya.

The study has been organised in five sections. A brief review of literature is presented in Section II followed by methodology in Section III. The next section presents the containing the analysis of relationship between the growth and finance of small enterprise and finally section V is the concluding section presenting summary findings and conclusion of the study.

Hypotheses:

To serve the objectives of the study mentioned above, the following hypotheses have been formulated and tested.

- H1: There exists a positive correlation between the micro and small enterprise growth and the growth in institutional financing of micro and small enterprises in Meghalaya.
- H2: There exists a positive correlation between the micro and small enterprise growth and the growth in number of bank branches.
- H3: There exists a positive correlation between the micro and small enterprise growth with higher C/D ratio.

II: REVIEW OF LITERATURE

Small Business Status and Growth

Many studies have highlighted the importance of MSMEs growth in many developed economies that are linked to higher economic growth. Noteworthy to say, MSMEs are of a considerable socio-economic significance with their substantial contributions in many aspects towards empowering the economic growth.

Klapper, et. al. (2002), study reveals that the proportion of MSMEs contribution to employment in Eastern Europe is smaller when compared to other developed economies, but these firms represent the most dynamic one when compared with the larger firm and are relatively younger, highly leveraged, more profitable and fast-growing firms, thus addressing the need of the century. Unfortunately, these firms face financial constraints that act as deterrent factors, reducing their chances of accessing long-term financing and their ability to grow.

In a study by Raju (2002), the secure and adequate institutional finance support is a necessary but not sufficient enough for the growth of this dynamic and vibrant sector. It clearly envisions a distinct role for small industry associations recognized by well-defined criteria and the enactment of a broad enabling law for the sector and the restructuring of the office of the DC-SSI, so as to attain the envisaged competitiveness.

A study on the impact of globalisation and domestic economic reforms on the small industry by Subrahmanya (2004) reveals that the competitiveness of the small industry can be enhanced by the availability of adequate finance. Walawal and Maijaiya (2007), using time series data to analyse and compare the GDP and contribution of MSMEs to GDP in Nigeria stresses in determining the amount of commercial bank credits required by MSMEs to assume its contribution to GDP of Nigeria. They, however, suggested that MSMEs contribution to GDP will be possible only if bank loans to MSMEs are augmented.

A study by Rogerson (2008), stresses on the significance of issues concerning finance, training, and regulation which has been a continuous thread in South African. These problems have retarded the development of the country's small, medium and micro-enterprise (SMME) for more than a decade. The author suggested that the adequate access to finance, skills, and leadership training and more flexible regulations can help promote entrepreneurship; strengthening the enabling environment for SMMEs; and enhanced competitiveness and capacity at the enterprise level.

A study was conducted on the physical and financial performance of MSMEs in Tamil Nadu by Bhaskaran. (2009), for the year 1991-92 to 2008-09 using total factory units, employment generation, investments, production and subsidy availed as performance variables indicates that there is a high degree of interrelationship among the performance variables, showing that a slight increase in a number of units, investments, and employment, resulted in a phenomenal growth of production. But an equivalent increase of capital, LTPT subsidy, and generator subsidy shows a marginal growth in the number of units. Likewise, employment increases significantly with the marginal increases in the number of units, investment and total subsidy.

As Katua (2014) observed that economic growth in developed countries such as Japan, Korea, Taiwan and many others, was significantly generated by MSMEs activities.

Small Business Financing and Promotion

The literature on the role of banking and financial institutions in industrial development in India is abundant but scanty when it comes to their role in developing small-scale industrialization.

A restrained on easy access to financial services slows the growth of MSMEs (Levy 1993). On discussing the importance of credit to Small and Medium scale enterprise; a bank credit is an essential ingredient for bringing about an efficient performance of any enterprise (Nnanna, 2001). Both small and large firms, they all require funds for its capitalization, working capital and rehabilitation needs, as well as for the creation of new investments.

Several Studies (Onwumere, 2000; Cooney, 2001; Nnanna, 2001; Usman, 2001 and Oboh, 2002) in the context of the vibrant economy having prominence of oil the country's export earnings have stated that access to credit to MMSMEs is capable of encouraging and expanding MMSMEs. Adequate credit would enable them to improve local technology, transfer foreign technology, form domestic capital, provide employment opportunities, and earn more foreign exchange than oil exports.

Around a decade back a book has been published (Gopakumar and Harikumar, 2006) revealing the trend and problems in institutional finance for small-scale industries. Almost two decades back a Ph.D. thesis has been produced almost on a topic like this about the state of Karnataka (Rudramurthy, 1998). In most cases, MSMEs sector has been facing acute shortages of finance especially during the pre-reform period since banks and financial institutions are reluctant to advance credit to SSI sector due to its poor creditworthiness (Brahmanadam, et.al 1981). Besides, the poor creditworthiness has been the result of the information asymmetries associated with smaller firms (Satio & Villanueva, 1981; Peel & Wilson, 1996). In general, MSMs have to face higher costs of financing and reduced access to finance since as per bank's perspective, financing to MSMEs is often regarded to be at higher risk due to the information asymmetry and opaqueness of these firms as compared to larger firms (Berger & Udell 2006).

Several studies (Stephan and Osagie, 1985; Ekezie, 1995; Ijaiya & Abdulkraheem, 2000; Ijaiya, 2003) are also of the view that credit to MMSMEs will lead to more production and creation of employment opportunities in the economy.

In the study by Berger and Udell (1995), while tracing out the reasons why it is harder for MSMEs to access debt financing, the authors found that small and young firms with lesser banking relationships pay higher interest rates and are required to pledge for collateral.

Satio & Villanueva (1981) and Peel & Wilson (1996) show that in general MSMEs faced with higher costs of financing and reduced access to finance because of the information asymmetries associated with newer, smaller firms. Further, Levy (1993), concludes that restricted access to financial services slows the growth of MSMEs.

A study of the Indian context Rama & Saini (1998), observed that SSIs had to pay the high cost of finance and cumbersome documentation to avail loan from the organized financial market. In most cases, enterprises are left with substantial reliance on unorganized financial assistance for funding purposes. Also, SSIs access to the term loan and working capital loan seems like a critical challenge, especially for obtaining seed capital.

Essain (2001), argued that adequate credit delivering to MSMEs is what is required to enable the country's industrial sector to meet the contemporary challenges of globalization, economic restructuring, and poverty.

As noted by Beck Demirguc-Kunt, and Maksimovic (2002), a weak financial and legal system together with higher corruption leads to a credit crunch on small firms. In the same line, (Beck, Demirgüç-Kunt, & Maksimovic 2005) reveal that businesses serving in underdeveloped systems with higher levels of corruption are affected by all obstacles to a greater degree than firms operating in countries with less corruption. Thus, a minimal improvement in the financial and legal system and a decline in corruption would help slacken the pressures for the small firms, which are the most constrained.

Wattanapruttipaisan, (2002) asserted that MSMEs are of great socio-economic significance while also revealing that due to deprived access to finance, growth and competitiveness is compromised. This picture is more acute in developing countries including ASEAN. As a consequence, MSMEs' share of financial resources is disproportionately less than their relative importance in the generation of domestic employment together with the lesser extent in terms of value added.

A study on the overall financial markets by Charles Ou (2006) in the USA, found out that financing small firms are showing declines in the cost of borrowing due to ample liquidity available to the banking industry. Further, due to the development of a nationwide market for credit lines along with the business credit cards coupled with the entry of regional and national banks and bank holding companies (BHCs) into local markets and the increased competition in the small business loan markets resulted in a cheaper and a more considerate credit to small firms.

In 2006, Tripathy, Das and Panda in their study on the "Interplay between primary sector lending and SSI Development in Orissa", used both secondary and primary data about income statement and balance sheet to assess the risk bearing ability or credit carrying ability of the borrower entrepreneurs. Their observations reveal that timely flow of credit to the SSI sector can, however, accelerate the growth of rural industrialization.

Using time series data analysis, Walawal and Maijaiya (2007), compared GDP and contribution of MSMEs to GDP. The data were obtained from the Central Bank of Nigeria (CBN) Statistical bulletin for various years. The authors stress on determining the amount of commercial bank credits required by Small and Medium industries to assume its contribution to GDP of Nigeria. They, however, suggested that MSMEs contribution to GDP will be possible only if bank credit to MSMEs is augmented.

In the study by Subrahmanya (2008), the author mentioned that limited access and constraints towards small business in obtaining finance are more pronounced in developing countries rather than in developed countries. He further pointed out that to strengthen and promote this sector there is a need to shift from subsidized or cheap credit to adequate inflows of credit to SSI units. The study reveals that there is no association between annual growth of SSI enterprises and that of SCBs' advances in the pre-liberalisation as well as in the post-liberalization periods, and it shows that SCBs' advances to SSI have grown more along with the growth of SSI production only and not with the growth of SSI enterprises.

In 2012, Kadiri's study of the MSMEs sector in Nigeria reveal that this sector was incapable to accomplish the goal of generating enough employment due to the inadequacy of finance. Hence, the author asserted that implicitly all the MSMEs that was taken under the study depends entirely on the informal sources of finance to start their business. As a way out, the author is of the opinion that the integration of the activities of the formal with the informal financial institutions may likely increase the growth prospect of the MSMEs along with better access to finance.

In the study by Raju.Yerram (n.d.), SSI sector still faces various problems notwithstanding its vital contributions to the industrial growth and its inherent inclination towards employment generation. The predicament continues to interfere with the development of this sector. One of the common barriers is the credit constraints.

The gaps identified in the literature highlight the need for a detailed analysis of the relationship between institutional financing and small enterprise growth, which this study aims to address through its methodology.

III: METHODOLOGY

The study is primarily explorative in nature and based on a schedule-based survey. The methods followed to examine the hypotheses and accomplish the objectives are described below mentioning the sources of information, variables used, time period covered, mode of analysis and statistical techniques etc.

The objectives of the study are primarily based on information collected from various secondary sources, such as industrial policy documents. (Central and State Governments), MSMEs Annual Reports, MSMEs Census, Statistical hand books, RBI Bulletins, Annual Reports of the concerned financial institutions, reports of periodic industrial survey conducted by governments, Government agencies and Research institutes and published literature available in some of the specialized libraries in India. While pursuing the objectives the study, it covers a period of 37 years i.e 1976-2013 but at times the time period has been narrowed down due to non- availability of data or non-compatibility of data available in multiple sources. The analysis is using both correlation and regression co-efficient.

Variables and Measurement

The variables used in the study are explained as follows;

Industrial/Enterprise Growth has been studied in terms of growth in number of units, output produced, employment generated, capital investment, export earning etc.

Institutional finance has been studied in terms of credit granted to SSIs/MSMEs in different forms, Credit Deposit Ratio and number of bank branches.

Tools of Analysis: The study commonly used correlation and regression analysis, (Chi-square test, F Test). The regression models formulated have been stated in the relevant section of the paper. The results have been interpreted at 5 % level of significance.

Scope of the Study: As mentioned earlier, the pursuance of the objectives of the study are based on the analysis of data collected from various secondary sources. The main component in this part of the study is growth analysis. The time period covered is not constant for analysis at various level. While describing the national level scenario the time period is 37 years (1976-2013) broken into three phases; pre-liberalization, post liberalization and post MSMED Act. The Meghalaya industrial scenario has been analysed in terms of the growth and policy measures. The growth analysis for the state covers a time period of 38 years (1975- 2013) and again the total time period has been broken into three phases. The Post Liberalisation is after 1991and the Post MSMED Act is after 2006.

IV: INSTITUTIONAL FINANCING- AN ANALYSIS OF GROWTH

The functions of commercial banks are to accept deposits and provide credit. In the process, it helps to foster more production and provision of employment opportunities in the economy, (Ijaiya, 2003; Ijaiya and Abdokraheem, 2000; Ekezie, 1975; and Stephan and Osagie, 1985; Essang and Olayide 1974). Further, the commercial bank can also play a significant role in identifying and preventing small industrial sickness at the earliest stage (Mathur 1999). The functions of commercial banks are to inculcate the banking habits among the masses and to mobilize the savings of people through deposits and as a mean to invest in productive investments. Moreover, the provision of finance and trade by commercial banks involves multiple tasks, such as promoting entrepreneurship, domestic trade, and foreign trade. An exclusive function of commercial bank is promotion of balanced regional development by mobilizing financial resources from developed region with surplus funds and investing the same in underdeveloped deficit region

Table: 1

Table Showing Exponential Growth Rate of Industrial Finance in India			
YEAR	C/D Ratio	Number of Bank Branches	Exponential Growth Rate (SCB)
Pre Liberalisation	-0.87	9.89	20.29
Post liberalisation and Pre MSMED Act	0.26	0.81	12.03
Post MSMED Act	0.96	6.01	30.68

Source: RBI, Publication, Handbook of Statistics On Indian Economy.

The exponential growth rate of industrial finance in India as depicted in table 1 during the pre-liberalization period shows that there is a negative growth of C/D Ratio (-0.87) indicating a limited credit availability relative to deposits. In contrast, the number of bank branches shows a significant growth (9.89), thus witnessed the expansion of banking infrastructure. Hence, the exponential growth rate of scheduled commercial bank indicate an increased in financial support to industries despite the negative C/D ratio.

Further, during the post-liberalization and pre-MSMED act the C/D Ratio which is a positive growth (0.26), indicate an improved credit availability to small enterprises. But with the minimal growth (0.81) of number of bank branches it however shows a slower expansion of banking infrastructure during the period. The overall result showing a continued financial support but at a reduced rate as compared to pre-liberalization.

In addition, the post-MSMED act era indicate a better credit accessibility having a positive C/D ratio growth of 0.96 and a renewed focus on banking infrastructure with a reflection of substantial financial support to industries.

Table: 2

Table Showing Exponential Growth Rate of Industrial Finance in Meghalaya				
YEAR	C/D Ratio	Number of Bank Branches	*Exponential Growth Rate (ASCB)	#Exponential Growth Rate (All FIs)
Pre Liberalisation	3.72	13.06	28.53	33.74
Post liberalisation and post MSMED Act	3.88	0.59	11.92	16.45
Post MSMED Act	-9.80	3.83	27.14	25.73

Note: * SCB Advances to SSIs/MSMEs sector in Meghalaya.

All Financial Institution advances to SSIs/MSMEs which includes ASCB, MIDC, MKVIB and NEDFI

Source: From 1975 to 2003-04 Meghalaya Commerce and industries department,
 From 2004 to 2007 Basic Statistical Returns, RBI,
 From 2008 onwards from State wise distribution of select items of scheduled commercial banks' advances to priority sectors and outstanding advances to Agriculture, RBI.
 NEDFI Annual Reports.
 MIDC and MKVIB

In Meghalaya, the analysis of C/D ratio, number of bank branches and the exponential growth rate of scheduled commercial bank finance and all financial institution finance as depicted in table 2 shows a better credit availability as compared to all India level with significant expansion of banking infrastructure reflecting a strong financial support from scheduled commercial banks and even higher contributions from other financial institutions like MIDC, MKVIB, and NEDFI during the pre-liberalisation period. During the post-liberalization and post-MSMED act there is a stable credit availability to small enterprises but with slower infrastructure expansion and a reduced financial support from both the schedule commercial bank and from other financial institutions. With regards to post-MSMED act, credit availability is declining but number of bank branches shows a moderate growth (3.83), hence witnessing a renewed focus on infrastructure expansion and an increased financial support from scheduled commercial banks, with a continued contribution from other financial institutions during the period.

Comparative Insights:

Meghalaya shows higher growth rates in the pre-liberalization period compared to India, indicating stronger financial support and infrastructure development.

But during the post-liberalization, both India and Meghalaya experienced slower growth in banking infrastructure and financial support, but Meghalaya's decline was more pronounced.

As per post-MSMED act, India saw significant improvements in all parameters, while Meghalaya faced challenges with a negative C/D ratio, despite growth in financial support and infrastructure.

Relationship between Finance and Growth

The Table 3 shows the association between institutional finance and growth (in terms of units, capital investment and employment) for both all India level and in the context of Meghalaya. The observed correlation coefficient between Units and finance at all India level is found to be 0.897 and the result is significant at 1% level. In Meghalaya, the observed association is also positive and the degree of association is very high (0.783). the relationship between capital investment and finance is observed to be positive and significant for both at all India level and in case of Meghalaya. The degree of positive association is very high for both the cases. The association between employment and finance is also positive and significant as evident from the observed correlation coefficients as shown in the table. The observed results thus indicate that all the three factors (unit, investment and employment) are positively associated with the quantum of finance. This is true for all India level as well as in the context of Meghalaya.

Within the same notion, this study however reveals that within the three factors (unit, investment and employment), they all are positively associated with the quantum of finance provided by all prominent financial institutions including the ASCB in Meghalaya and by All Scheduled Commercial Bank in India. Hence, higher finance will result into higher growth.

Table: 3

Correlation Result of India and Meghalaya

Variables	India	Meghalaya
Units and Finance	0.897***	0.783***
Capital Investment and Finance	0.95***	0.940***
Employment and Finance	0.909***	0.732***

Source: MSMEs Annual Reports, Handbook of statistics on the India

economy and Meghalaya Handbook of Statistics.

Note:

1. Data for India level on investment and finance is from 1990 to 2011, due to non-availability of data prior to 1990 on investment and data for 2012 to 2014 is showing investment at market price and other years at constant price.
2. * Significant at 10% level
** Significant at 5% level
*** Significant at 1% level

Similarly, the observed correlation coefficient as depicted in Table:4 between number of units, capital investment and employment to that of CD ratio is found to be 0.47, 0.43 and .52 respectively and the results are significant at 1 percent level. Likewise, the estimated correlation coefficient between number of units, capital investment, and employment to that of number of bank branches is found to be 0.75, 0.65 and .78 and all are significant at 1 percent level.

Thus, the observed results indicate that CD ratio has a positive association with the growth in all the three factors (unit, investment and employment). Similarly, more branches will result into increased access to finance, thus positively it will relate to the growth in the three important aspect of SSIs/MSMEs characteristic.

Table: 4 Correlation Result of Meghalaya

Variables	C/D Ratio	No. of Bank Branches
Units	0.47***	0.75***
Capital Investment	0.43***	0.65***
Employment	0.52***	0.78***

Source: Basic Statistical Return, RBI and Meghalaya Handbook of Statistics.

Regression Analysis: India

In the descriptive analysis presented in the earlier section it is learnt that along with the increase in the small industrial growth variables there is observed a corresponding increase in the small industrial financial variables. The association between the two set of variables observed in descriptive analysis and subsequently in the correlation analysis made in the previous section prompts to have a regression analysis to probe into the extent the financial variables influence the small industrial growth in terms of the selected parameters. In order to ascertain the cause and effect relationship between the financial variables and small industrial growth variables in the national level three log linear models have been formulated and tested. Three regression models were formulated to analyse the impact of financial variables on small industrial growth variables.

The dependent variables were:

Number of Units (Units): Represents the population of small enterprises.

Employment Generation (Emp): Indicates the number of jobs created by small enterprises.

Production at Constant Price (Prodn): Reflects the output produced by small enterprises.

The independent financial variables were:

Number of Bank Branches (NBB): Represents the availability of banking infrastructure.

Credit-Deposit Ratio (CDR): Indicates the proportion of credit extended relative to deposits.

Small Enterprise Advances (SEA): Refers to the amount of credit provided to small enterprises. The three models are presented as following;

$$\ln Units_i = \alpha + \beta_1 \ln NBB_i + \beta_2 \ln CDR_i + \beta_3 \ln SEA_i + \epsilon_i \dots\dots(i)$$

$$\ln Emp_i = \alpha + \beta_1 \ln NBB_i + \beta_2 \ln CDR_i + \beta_3 \ln SEA_i + \epsilon_i \dots\dots(ii)$$

$$\ln Prodn_i = \alpha + \beta_1 \ln NBB_i + \beta_2 \ln CDR_i + \beta_3 \ln SEA_i + \epsilon_i \dots\dots(iii)$$

Table: 5

Impact of C/D ratio, Number of Branch and Finance on Industrial Growth

Model	Variables	Unstandardized Coefficients	Standardized Coefficients	t-Statistics	Adjusted R Square	F. Statistics	Durbin - Watson Statistics
1	Constant	5.492		1.193	0.936	177.57***	1.72

	CDR	-0.956	-0.072	-1.524			
	NBB	-0.479	-0.145	-1.554			
	SEA	0.952	1.112	11.544***			
2	Constant	-116.434	-	-3.96***	0.899	107.52** *	1.869
	CDR	1.549	0.339	3.911***			
	NBB	0.001	0.41	4.424***			
	SEA	0.008	0.394	3.207***			
3	Constant	-4.43		-1.262	0.94	189.71***	1.809
	CDR	3.044	0.291	6.364***			
	NBB	-0.393	-0.151	-1.672*			
	SEA	0.656	0.974	10.428** *			

Note: Dependent Variables of Model 1 is No. of units; Model 2 is Employment and Model 3 is Production.

***, ** and * indicate significant at 1%, 5% and 10% level respectively.

With the help of the data pertaining to the variables used in the aforesaid regression models, the equations were examined with the help of SPSS statistical package (version 22) and the results obtained therefrom have been systematically tabulated as depicted in Table (5). From the table it is observed that the regression models do not suffer from any auto co-relation as the D-W statistics are within the acceptable range. Further the models do not suffer from much multi-collinearity as the VIF values are less than 2. The values of R² for the three models being 0.936, 0.899 and 0.94 respectively the models are found to have reasonably high explaining power. The regression results provide us the following findings;

Small industrial population is positively influenced by small enterprise advances made by the financial institutions (Model 1) but the influence of the two other variables i.e. number of bank branches and CD ratio is not significant. The employment generation in small enterprises in India is positively influenced by all the three variables included in the model but the influence of branch expansion is found to have greater influence than the credit availability and general banking scenario represented by CD ratio (Model 2). The production in small enterprise sector at constant price is also found to be significantly influenced by the credit available from the financial institutions and general banking environment represented by CD ratio. But the influence of the small industrial advances is greater than that of the general banking environment (Model 3).

Regression Analysis: Meghalaya

After obtaining the relationship between the small enterprise growth variables and small industrial finance variables an attempt has been made to probe into the impact of small enterprise finance on the small enterprise growth by means of regression analysis. Similar regression models were applied to analyse the impact of financial variables on small enterprise growth in Meghalaya.

The dependent variables were:

Small Enterprise Population (SEP): Number of small enterprises.

Capital Invested in Small Enterprises (CISE): Total capital investment in small enterprises.

Employment Generation in Small Enterprises (EGSE): Number of jobs created by small enterprises.

The independent financial variables were:

Credit-Deposit Ratio (CDR): Proportion of credit extended relative to deposits.

Number of Bank Branches (NB): Availability of banking infrastructure.

Small Enterprise Advances (SEA): Amount of credit provided to small enterprises.

The following three regression equations were examined:

$$SEP_i = \alpha + \beta_1 CDR_i + \beta_2 NB_i + \beta_3 SEA_i + \varepsilon_i \dots (model 1)$$

$$CISE_i = \alpha + \beta_1 CDR_i + \beta_2 NB_i + \beta_3 SEA_i + \varepsilon_i \dots (model 2)$$

$$EGSE_i = \alpha + \beta_1 CDR_i + \beta_2 NB_i + \beta_3 SEA_i + \varepsilon_i \dots (model 3)$$

With the help of the data pertaining to the variables used in the aforesaid regression models, the equations were examined with the help of SPSS statistical practice (version 22) and the results obtained there from have been systematically tabulated as depicted in Table 6, 7, 8. From the table it is observed that the regression models do not suffer from any auto co-relation as the D-W statistics are within the acceptable range. Further the models do not suffer from much multi-collinearity as the VIF values are less than 2.

Table:6 Impact of C/D ratio, No. of branch and Finance on No. of Units

Variables	Unstnd. Coeff.	Stnd. Coeff.	t-Statistic	P-value	R ² (F Stat)	D-W Stat.	VIF
Constant	121.604		-1.782	0.083			
CD Ratio	4.132	0.153	1.69	0.100	0.766	2.196	1.186
No.of Branches	1.543	0.413	3.999	0.000	(37.127)		1.551
Finance	0.009	0.492	4.76	0.000			1.552

Table: 7 Impact of C/D ratio, No. of branch and Finance on Capital Invested

Variables	Unstnd. Coeff.	Stnd. Coeff.	t-Statistic	P-value	R ² (F Stat)	D-W Stat.	VIF
Constant	-338.37		-2.011	0.050			
CD Ratio	9.997	0.094	1.659	0.100	0.909	2.030	1.186
No.of Branches	2.15	0.146	2.26	0.030	(113.08)		1.551
Finance	0.059	0.823	12.762	0.000			1.552

Table:8 Impact of C/D ratio, No. of branch and Finance on Employment

Variables	Unstnd. Coeff.	Stnd. Coeff.	t-Statistic	P-value	R ² (F Stat)	D-W Stat.	VIF
Constant	-635.28		-2.153	0.03			
CD Ratio	25.065	0.212	2.371	0.02	0.771	2.112	1.186
No.of Branches	8.13	0.497	4.871	0.00	(38.261)		1.551
Finance	0.029	0.372	3.637	0.01			1.552

Small industrial population in the context of Meghalaya is significantly influenced by credit extended by banks, branch expansion and C.D ratio.

The extent of capital investment in the small enterprise sector in Meghalaya is significantly positively influenced by credit extended by the financial institutions (SCBs), the number of bank branches and C.D ratio of the state. The influence of credit availability observed to be higher as compared to the other two variables representing general banking scenario.

Small Industrial Growth in Meghalaya in terms of the three basic parameters population, employment generation and capital investment is significantly influenced by not only the credit extend by the bank but also the general banking environment represented by branch expansion and C.D ration in the state.

V. SUMMARY AND CONCLUSION:

Considering the importance of finance in the process of small scale industrialization in a developing nation like India a supportive financial environment has been created wherein a good number of financial institutions are providing financial assistance in different form to the small enterprises. At the same time, some financial institutions have been established to take care of the financial needs of specific enterprises like those in Khadi and Village sector, or specific group of entrepreneurs like those who belong to Scheduled tribe are taken care of by NSTFC. Financial institutions like SIDBI and NEDFI are also providing their services both directly and indirectly to offload the financial problems of the small-scale entrepreneurs. The scheduled commercial banks in the state play a predominant role in providing credit to MSMEs sector. Despite the phenomenal contributions by all FIs in term of providing financial credit to the industrial undertakings of the state, it is disappointing to mention that there are still many small firms that are not covered by the formal lending institutions. In fact, the share of MSMEs in Meghalaya out of the total credit advanced by all scheduled commercial bank in India is only 0.057%. The analysis further reveals that majority of MSMEs in a state are still relying on personal investment or loan from family and friends or from moneylenders that charge a high rate of interest for funding purposes. The reason behind the low performance of scheduled commercial banks advances in Meghalaya as noted by bank officials of SBI, is the consistent problem relating to improper land documents that cause a difficulty for bank to create an equitable mortgage on property. In most cases, Deed of Declaration and Tittle Deed are not prepared as per the notified guidelines of the Law Department. Furthermore, it is observed that while financial institutions focus on their primary function of lending, their other roles, particularly in consultancy, business guidance, capacity building, and relationship building, are often diluted.

At the national level small industrial population is positively influenced by small enterprise advances made by the financial institutions but the influence of the two other variables i.e. number of bank branches and CD ratio is not significant. The employment generation in small enterprises in India is positively influenced by all the three variables included in the model but the influence of branch expansion is found to have greater influence than the credit availability and general banking scenario represented by CD ratio. The production in small enterprise sector at constant price is also found to be significantly influenced by the credit available from the financial institutions and general banking environment represented by CD ratio. But the influence of the small industrial advances is greater than that of the general banking environment.

The extent of capital investment in the small enterprise sector in Meghalaya is significantly positively influenced by credit extended by the financial institutions (SCBs), the number of bank branches and C.D ratio of the state. The influence of credit availability observed to be higher as compared to the other two variables representing general banking scenario.

Small Industrial Growth in Meghalaya in terms of the three basic parameters population, employment generation and capital investment is significantly influenced by not only the credit extend by the bank but also the general banking environment represented by branch expansion and C.D ratios in the state. The findings support Hypotheses H1, H2, and H3, indicating a positive correlation between small enterprise growth and institutional financing, the number of bank branches, and the C/D ratio. The study underscores the importance of targeted financial policies and capacity-building initiatives to address the challenges faced by MSMEs, particularly in underdeveloped regions like Meghalaya.

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