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Non-Financial Costs Impedes Growth: A Study of MSMEs in Meghalaya

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Abstract

Small industry is regarded as one of the major planks of India's economic development strategy since independence. Today, small industry occupies a position of strategic importance in the Indian economic structure due to its significant contribution in terms of output, exports and employment. But the strategic importance of small business loses its relevance when paucity of fund obstructs implementation of the appropriate strategy. Many studies have reveals that small entrepreneurs are deprived of adequate finance, hence makes them vulnerable to not only set-up their ventures but also to undertake various diversification and modernization activities. In addition, small entrepreneurs are reluctance to approach financial assistance due to the perceived cost of finance. Apart from interest cost involved in using debt finance, the entrepreneurs had to bear lots of non-financial cost due to delay/ harassment/ business interference involved in the process of availing finance from formal financial institutions. The present study on industrial finance for small industries in Meghalaya, is not only essential for solving the problems of deprived finance but also to tackle the problems confronting the borrowers to avail easy and speedy finance. In this backdrop, the present study attempt to analyse the problem due to non-financial cost like, delay/ harassment/ business interference involved in the process of availing finance from formal financial institutions.

Keywords: Small, Enterprise, Finance, Loan, Processing

Introduction

Small industry is regarded as one of the major planks of India's economic development strategy since independence. MSMEs sector is well-documented all over the world for the significant contributions it makes in gratifying various socio-economic objectives, such as growth in employment, output, promotion of exports and entrepreneurship (Krishnaswamy, 2008). Today, small industry occupies a position of strategic importance in the Indian economic structure due to its significant contribution in terms of output, exports and employment. MSMEs sector contributes around 8 per cent of country's GDP, 45 per cent of the manufactured output and 43 per cent of its total exports of the country (Muniyappa, 2013). MSMEs have always been the centre of interest for academics and policy-makers because of their contribution to employment (Bradshaw, 2002), which is very important for the stability of economy and welfare of the society, their flexible organization and production structures to capture new business opportunities and their position to support larger firms with ancillarization linkage. In a developing nation like India, small-scale industrialization plays a significant role in economic development. This industry, by and large, represents a phase of economic transition from traditional village-based cottage industries to modern technology based after globalization. Their scope is very wide ranging from economic role such as employment generation, fostering balance resource utilization, removing regional inequalities and disparities and generating income etc. to socio-political role by transforming the society in a gradual and sustainable manner. However; MSMEs in almost all over the world have difficulties in accession to financial resources they deserve (Turahan & Dizkirchi, 2012). Survey data out of 98 countries (Kushnir, Mirmulstein, & Ramalho, 2010) reported that access to finance is the biggest obstacle for MSMEs than large enterprises and the density increases with the lending. Many studies have reveals that small entrepreneurs are deprived of adequate finance, hence makes them vulnerable to not only set-up their ventures but also to undertake various diversification and modernization activities. In addition, another reason why the small entrepreneurs show reluctance to approach financial

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assistance is the perceived cost of finance. Apart from interest cost involved in using debt finance the entrepreneurs' bears a lot of non-financial cost due to delay / harassment / business interference involved in the process of availing finance from formal financial institutions.

The present study on industrial financing for small industries in a developing state like Meghalaya is not only essential for solving the problems of industrial development but also to tackle the problem of unemployment and mobilization of resources from traditional avenues of investment to new opportunities in the globalized economy and prevention of waste of economic resources. In this backdrop, the present study is intended to be a humble effort in highlighting the problem faced by the entrepreneurs due to non-financial cost like, delay / harassment / business interference involved in the process of availing finance from formal financial institutions.

The research questions pertaining to delayed financing of small enterprises in Meghalaya that need to be addressed are identified as following;

- What are the problems encountered by the small entrepreneurs in Meghalaya in availing loans from various financial institutions?
- Are the financial institutions confronting any problem while extending their services to the small entrepreneurs in the state?
- What is the magnitude and nature of these problems?
- Can they be resolved in the greater interest of small enterprise development and growth in the state?

The present study under the title "Non- Financial Costs Impedes Growth: A Study of MSMEs in Meghalaya" intends to answer the above research questions.

To resolve the research questions identified as above the study intends to describe the procedures and problems confronting the borrowers on availing finance from the financial institutions in Meghalaya.

Accordingly, the broader objectives have been formulated here as under;

- To highlight the financial infrastructure of Micro and Small enterprises in Meghalaya.
- To identify the problems faced by the financial institutions and small entrepreneurs in the process of financing micro and small enterprises in Meghalaya and
- To suggest some guidelines to improve the procedural approach of loan processing on MSE financing system in the state.

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 containing highlights of the financial infrastructure and the analysis of the procedural problems confronting the borrowers in the process of availing finance in Meghalaya and finally the concluding section presenting summary findings and conclusion of the study.

Significance of the Study

In the absence of any systematic study to throw light on institutional finance for small enterprise in Meghalaya, the study will generate a much-needed database on the subject, and adding to it, the study has the potential to unearth the problems faced by both the financial institutions and entrepreneurs. Bringing the problem of both the financial institutions and borrowers to surface is intended to play an instrumental role in developing mutual understanding and cooperation through a process of behavioral modification.

Review of Literature

Researchers all over the world recognising the importance of small enterprises as a propelling force for economic development have put extensive efforts to reveal on various aspects of the small industrial sector. As a result, a good number of books, research journals and trade magazines are published at global, national and regional level. This section tries to capture some of the relevant research works to trace the earlier trend in the development of the sector and formulate a theoretical framework for carrying out the present study. A reasonable search in national and international journals publishing articles on small industrial growth and financing has thrown light on the earlier works done on the subject covering the international, national and NE region. However, at the international level particularly in the context of some developing countries, some relevant studies have been found. In the light of those studies and some others in the Indian context, a review of the existing literature has been made here.

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 and removal of regional imbalances in industrial development.

The loan procedure adopted by the financial institutions is identified as one of the problem faced by the entrepreneurs seeking financial assistance or credit facility (Scott, 1995; Storey, 1994; Cowling & Westhead, 1996) Altman, Sabato, & Wilson, 2008; Berger & Frame, 2007). The areas where emphasis is laid by the financial institutions are also indicated by many studies conducted in India as well as at the international level (Glorfeld & Hardgrave, 1996; Desai et al., 1996; Barney et al., 1999; Jagielska et al., 1999; Sheng, Rani, & Shaikh, 2010). The degree of autonomy enjoyed at various levels of financial institutions is also highlighted by some studies (Canales & Nanda, 2008). The following paragraphs have been incorporated to portrait the practice and procedure followed by the financial institutions in processing loan applications of the borrowers for credit disbursal.

Kamesam (2003), reported that a Fair Practices Code adopted by SIDBI, clearly streamline the procedurals aspect of loan applications, appraisals, and disbursements by the bank. Thus, the initiative ensures a timely processing of loan proposal.

In 2006, Scott's study of U.S. small firms in 1995 and 2001, provides empirical evidence on the role loan officers played in facilitating small firm access to commercial bank loans and found out that loan officer turnover is positively related to the turndown rate on the most recent loan application. The credit decision is highly dependent upon the loan officer's interpretation of soft information of the enterprise. One way of expediting loan processing and to validate borrower's creditability in an innovative way is for the bank to use the (Berger & Frame, 2007) credit-scoring technology increasingly. Another option is by introducing lending to small firms through microfinance institutions. Several studies (Storey, 1994; Cowling & Westhead, 1996) also states that loan application processing is one of the crucial tasks that involve the bank officials with detail scrutinization of different aspects of the MSMEs' applicant credentials when making the lending decision, and an approval on loan proposal often makes the bank attempt to "seek signals from borrowers".

In the study in Mexico by Canales and Nanda (2008), reveals that a decentralized organizational structure where branch managers enjoy the autonomy over the terms of lending tend to manipulate the market power especially to those smaller firms that have fewer outside options for external finance. Bank manager seeks to discharge its authority by charging higher interests rates on loan to such firms and make sure that larger loans do get delivered to those undertakings.

In 2008, Canovas et. al. by using a unique sample of 3366 MSMEs from 19 European countries, analyse the effect of relationship lending on bank loan maturity and whether the influence of relationship is dependent on the institutional environment within the country where the transaction takes place. The results indicated that stronger firm–bank bonds lengthen the maturity of bank loans and fewer bank relationships a firm maintains, the longer the maturity of bank loans received. However, it is consistent with the theory that bank relationships reduce the asymmetric information problem between the firm and the bank. Further, the study shows significant variation across countries of which "lending increases (decreases) the likelihood of long-term debt for MSMEs in countries with less (more) competition in the banking sector."

In the study by Popli and Rao (2009), on Customer Relationship Management in Indian Banks, the study attempt to discover the service quality provided by Public Sector Banks to Small & Medium Enterprises. The author is of the view that with the advent of modernized Communication technology the bank requires to conduct appropriate training to staff for improvement of service to the MSMEs customers. The study also found out that service quality of private banks is better than that of Public sector banks. Further, the study also revealed that the credit flow to the MSMEs sector is inadequate and need Government intervention and that the policies for MSMEs Sector of other countries are far better than the policies of India. With regards to loan processing, delay in loan application processing are due to unhelpful nature of the staff members and banks seek collateral security/ guarantee from a third party even when the project has been assessed as viable, and the coverage under primary security is sufficient.

Sheng et al. 2010, observed that banks usually put forward certain quantitative measures on addressing finance to MSMEs. These are measures concerning MSMEs' personality, viability, knowledge and competency, financial position, and the different levels of detail preparation of the loan application. This paper is inspired by the fact that getting external financing often represents a vital and challenging task faced by MSMEs, especially ones which are growing (Westhead & Wright, 2000).

To examine the consumer loan processing and monitoring, using units of inquiry that include consumer credit division, follow up, monitoring and recovery department, consumer credit supervisor, credit officers and data entry officer, Kessy (n.d.) studied Tanzania Postal Bank. The study indicates that a streamlined loan processing, frequent monitoring, and management has a greater role to play in assets creation and growth and the empowerment of both financial institution and the borrowers over time.

Methodology

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

Accomplishment of the first objective of the study is mainly based on information collected from various secondary sources, viz., State industrial policy documents, RBI Bulletins, Statistical hand books, 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.

Sampling Design

The pursuant of the other objectives of the study is based on analysis of primary data for which data has been generated following a sample survey. All the business borrowers (enterprises or the entrepreneurs) covering both registered and unregistered enterprises operating in private sector and appearing in the loan registers of any of the three major financial institutions operating in Shillong, the capital city of Meghalaya (the largest Commercial Bank namely SBI, MIDC, MKVIB) are the population. The financial institutions have been purposively chosen for their relative importance in financing small enterprises in the state. A sample of 180 loan files pertaining to the small entrepreneurs in the loan registers of the three financial institutions have been drawn following stratified random sampling method and giving unequal weightage to each stratum i.e., (SBI-50, KVIB-40 and MIDC-90). The sample has been drawn irrespective of the location of the enterprises. When the enterprise is a company, cooperative and partnership firm borrower status is given to the managing director, the secretary and the most active partner respectively.

Data Collection Design and Tools

Data has been captured by means of a three paged self-designed structured schedule administered by the researcher herself after taking prior appointment with the borrowers (as the representatives of the enterprises). The schedule consists of two parts; Part A contains 10 questions which are administrative and classification questions, Part-B contains 13 target questions to discover the borrowers' problems. To supplement the information from the above sources, primary data in the form of opinion, reaction, interpretation and suggestion have been collected by conducting informal structured interviews with government officials, entrepreneurs, academicians etc.

Variables and Measurement

The variables used in the study are explained as follows;

Problem confronting the borrowers has been studied by means of several variables such as Complexity of application, lack of consumer education, administrative harassment, personal harassment, favouritism, political interference, lack of advisory and support services etc.

Tools of Analysis

The analysis has used descriptive and inferential statistical techniques like summary statistics, trend analysis, frequency table.

Financial Infrastructure and Financing Problems of MSMEs in Meghalaya

A bank credit is an essential ingredient for bringing about an efficient performance of any enterprise (Levy, 1993; Bhaskaran, 2009; Onwumere, 2000; Cookey, 2001; Nnanna, 2001; Usman, 2001; Oboh, 2002). Both small and large firms they all requires funds for its capitalization, working capital and rehabilitation needs, as well as for the creation of new investments. In utmost cases, MSMEs sector has been facing with acute shortage of finance especially during the pre-reform period since banks and financial institutions were reluctant to advance credit to SSIs/MSMEs sector due to its poor creditworthiness (Brahmanadam, Rai, & Dakshina, 1981).

The MSMEs sector in India in the overall finance by banks and financial institutions (IFC, 2012) receives around ₹. 6.97 trillion debt financing. But the significant share of formal debt comes from banks and government financing agencies with an estimated flow of credit of ₹. 6.4 trillion to these enterprises. While the Scheduled commercial banks proportion of formal debt finance accounted for 92 percent of the MSMEs sector financing, with public sector banks accounts for 70 percent (₹. 4.5 trillion) of the banking debt to this sector. It is to be noted that a minimum share was witnessed for private and foreign banks that accounts only to the extent of 22 percent (₹. 1.4 trillion), while small banks such as regional rural banks, urban cooperative banks putting together accounted for 8 percent (₹. 0.5 trillion) of bank finance.

In the context of MSMEs finance in North-East India, including Meghalaya (IFC, 2012) the debt gap is estimated at around ₹. 0.09 trillion and the seven States together received only 1 percent of the debt finance by banks and financial institutions, of an estimated ₹. 0.1 trillion. However, the low diffusion of banking finance to the NE are due to several constrained that remain a challenge, such as infrastructural bottlenecks, difficult terrain and poor law and order conditions. Besides, the region has less commercial activity and lower demand for finance.

In term of financial and industrial infrastructure, Meghalaya possesses an aggregation of financial institutions and banks to cater to the credit need of the MSMEs sector. However, the number of bank branches of scheduled commercial banks has increased remarkably from 21 in 1976 to 180 in 1996 and further to 294 in the year 2015 (Basic statistical Returns, RBI). Separately, Meghalaya Rural Bank branches has increased by 70.37% during the period 2009 to 2015. With respect to Meghalaya Cooperative Apex Bank the bank branches has expanded to 46 in 2014 from 41 in 2009 (see Table 1). In addition to the schedule commercial Banks that cater to the banking needs and lending requirement, the state is also endowed with other financial institutions like MIDC, KVIC, MKVIB, SIDBI, AFC, NABARD, NEDFI etc. to cater to the financial needs of the industrial units either through direct financing or refinance facilities.

Table 1: Number of Bank Branches in Meghalaya

Particulars	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	
1	*2*	*3*	*4*	*5*	*6*	*7*	
S.B.I. and its Associate	90	90	91	94	94	103	104
Nationalised Bank	55	57	62	75	77	91	94
Regional Rural Bank	54	55	55	55	55	60	62
Other Scheduled Commercial Bank	9	15	16	23	27	32	34
All Scheduled Commercial Bank	208	217	224	247	253	286	294
Meghalaya Rural Bank	54	55	58	64	76	91	92
MCAB	41	41	43	46	46	46	NA

Source: Basic Statistical Returns, RBI and Annual Reports of Meghalaya Cooperative Apex Bank and Meghalaya Rural Bank.

Procedural Problems Confronting the Borrowers

One reason why the small entrepreneurs show reluctance to approach financial assistance is the perceived cost of finance. Apart from interest cost involved in using debt finance the entrepreneurs bears a lot of non-financial cost due to delay / harassment / business interference involved in the process of availing finance from formal financial institutions. Loan application processing is one of the crucial task that involve the bank officials to conduct with detail scrutinization of different aspects of the SME's applicant credentials before making the lending decision (Storey, 1994; Cowling & Westhead, 1996). To speed up loan processing and to validate the borrower's credibleness, as suggested by Altman et al. (2008) & Krishnaswamy (2008), is to measure it in terms of their qualitative characteristics. But it is to be supported by the balance sheet information that reflects the true and fair view of the business. However, on appraising the loan application, bank put forward certain quantitative measures on addressing finance to SMEs. These are measured in terms of SME's personality, the viability of the SME's business, the SME's knowledge and competency, the financial position of the SME, (Sheng et al., 2010) and the level of detail study on the feasibility of the project proposal. Further, bank has to properly assess the creditworthiness of the entrepreneur prior to any lending decision so as to be able to calculate the risk based on risk-absorption / risk-hedging capacity of the entrepreneur (Arora, et al., 2013) and to mitigate the lending risk by scoring it out on any unprofitable proposal. However, the evaluation of credibleness of any potential credit application has remained a challenge for banks all over the world (Purohit et al., 2012) and it seems difficult to unearth the possible future risk associated with the proposal despite using sophisticated scoring models. Hence, to streamline the loan processing a frequent monitoring and management has a greater role to play in assets creation and growth and the empowerment of both financial institutions and the borrowers over time (Kessy, n.d.). In this backdrop, the present study attempts to get an insight to review how, the delayed in financing has been an impediment to the growth of rural enterprises in Meghalaya.

Data pertaining to the problem confronting the borrowers has been obtained from the primary sources by conducting a survey. Three commonly faced problems each represented by two items in the questionnaire have been measured by means of a seven-point Likert scale with extreme anchors being very large extent (VLE) and very small extent (VSE). The average score has been computed first for every individual borrower and then for the financial institutions under the study along with the co-efficient of variation. The number of times the borrowers visit the lending institution and functional areas in which the borrowers are not provided with advice or guidance, difficulty faced in providing the supporting documents, have been captured by the frequencies of occurrence and percentage. All the responses have been analyzed by means of frequencies in respect of the three financial institutions.

The knowledge drawn from the review of literature reveal that the small industrial borrowers all over the world face various problem while availing loan from their financial institutions but the degree of the problem varies depending upon the region and financial institutions. Hence it has become imperative to probe into the problem encountered by the small enterprise borrowers in Meghalaya.

Problem in Loan Application Processing

The data collected from the sample borrowers drawn from all the three financial institutions have been analysed by mean classification and tabulation (see Table 2). The responses of the respondents against each item captured on a 7-point Likert Scale were used to compute the average score against three broader variables, inconvenience faced due to lengthy and complex application form, poor cooperation in providing technical and business-related advice and poor interpersonal behaviour of the staffs. While comparing the averages it is found that the degree of problem on account of inconvenient application form (X=3.86, X being the average) is higher as compared to problem of poor cooperation (X=3.70) and poor interpersonal behaviour (X=3.65). While analysing the scores from the view point of various financial institutions it is found that in terms of all the three indicators, the borrowers of SBI face problem relatively of higher intensity as compared to the other two financial institutions. Since, the coefficients of variations range between 30 to 44% the average values may be considered as fair representation of the individual borrowers.

Table 2: Problems Of Borrowers on Processing of Loan Application

FIs / *Variables*	*SBI*		*MIDC*		*MKVIB*		*All FIs*	
	N=50		*N=90*		*N=40*		*N=180*	
	$\bar{X}$	*CV*	$\bar{X}$	*CV*	$\bar{X}$	*CV*	$\bar{X}$	*CV*
Inconvenient Application Form	4.18	31.93	3.82	28.97	3.61	41.06	3.86	33.33
Poor Cooperation	3.94	30.26	3.79	32.39	3.31	38.23	3.70	33.89
Poor Interpersonal Behaviour	4.11	31.74	3.6	35.6	3.27	43.6	3.65	37.41

Source: Field Data

Area of Advice

Non-availability of technical and business advice is regarded as a common problem of the borrowers (Panda, 1989). The bankers and the financial institutions of today are supposed to provide advices to the borrowers, as their advices will, not only improve the business performance but also improve their quality of assets by reducing NPA. In order to have an idea about the areas where the borrowers are provided technical advice by the financial institutions in Meghalaya, the sample borrowers were asked to put a tick mark against various types of common business advices that should flow from financial institutions to the small enterprise borrows on a developing region like Meghalaya. The frequencies against each advice were analysed in terms of their percentage against various financial institutions. Majority of the borrowers (66.11%) receive advice relating to finance but when it comes to other functional areas like production, accounts and human resource management less than 25% the borrows receive advice from their respective financial institutions. While 68% of the SBI borrowers have received advice in the area of marketing, the percentage of borrowers receiving advice in this function area is observed to be 11% and 33% in respect of MIDC and MKVIB respectively. The functional areas where less advice is provided are accounting (11.67%), human resource management (17.68%) and production (23.33%).

Table 3: Distribution of Borrowers in Accordance Wth Advice Received in Various Functional Areas

FIs / Areas	*SBI*		*MIDC*		*MKVIB*		*All FIs*	
	(N=50)		*(N=90)*		*(N=40)*		*(N=180)*	
	Frequency	*%*	*Frequency*	*%*	*Frequency*	*%*	*Frequency*	*%*
Financial	38	76	51	57	30	75	119	66.11
Marketing	34	68	10	11	13	33	57	31.67
Production	10	20	31	34	1	3	42	23.33
Human Resource	1	2	30	33	1	3	32	17.78
Accounts	4	8	11	12	6	15	21	11.67
Any Others	3	6	4	4	3	8	10	5.56

Source: Field Data

Frequency of Bank Visits by Borrowers During Loan Processing and Disbursement

Frequency of visit by the borrowers to their financial institutions acts as an indicator of inconvenience to the borrowers. In this sub section an analysis is made to reveal the number of visit by the borrowers during different phases of loan processing (see Table 4). Nearly 43% of the total borrowers visit their respective financial institution 2 to 3 times before submission of the loan application form and while going for an institution wise analysis it is found that the frequency of such visit is higher (more than thrice) in case of MIDC and MKVIB (40%) as against only 22% recorded for SBI. The number of visits between application submission and loan sanction is between 2 to 3 times for the majority of the borrowers (54.44%) and greater than three times for nearly 39% of the borrowers. When it comes to visit between loan sanction and disbursement majority of the borrowers (51.11%) have reported that they are required to visit between two to three times. Such visit is relatively lesser in respect of the borrowers of MIDC. Further, the number of visit by the borrowers after disbursement of loan has been captured by periodicity (Table 5) and it is found that majority of the borrowers (65.56%) pay a monthly visit to their respective financial institution. In separate interviews with a couple of the respondents, it is observed that such visit is considered by them helpful in maintaining good relationship and obtaining advice in relation to instalment payment.

Table 4: Distribution Of Borrowers According to Frequency of Bank Visits During Loan Processing

FIs / Number of Visits F		SBI (N=50)		MIDC (N=90)		MKVIB (N=40)		All FIs (N=180)	
		(%)	F	(%)	F	(%)	F	(%)	
Before Submission Of Application Form	< 2	33	66	5	6	1	3	39	21.67
	2 to 3	6	12	49	54	23	58	78	43.33
	>3	11	22	36	40	16	40	63	35
Between Application And Sanction	< 2	3	6	9	10	0	0	12	6.67
	2 to 3	22	44	54	60	22	55	98	54.44
	>3	25	50	27	30	18	45	70	38.89
Between Sanction And Disburse	< 2	29	58	22	24	5	13	56	31.11
	2 to 3	16	32	50	56	26	65	92	51.11
	>3	5	10	18	20	9	23	32	17.78

Source: Field Data

Table 5: Distribution of Borrowers According to Frequency of Bank/Branch Visits After Disbursement

FIs / Visits	SBI		MIDC		MKVIB		All FIs	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Once	1	2	1	1	1	3	3	1.67
Fortnightly	2	4	1	1	5	13	8	4.44
Monthly	39	78	56	62	23	58	118	65.56
Quarterly	3	6	5	6	6	15	14	7.78
Half Yearly	5	10	4	4	3	8	12	6.67
Once a year	0	0	23	26	2	5	25	13.89
Total	50	100	90	100	40	100	180	100

Source: Field Data.

Speeding up Disbursal Process

Many a times the financial institutions sit over the loan files as a result of which delay is caused to the loan disbursal process. In order to speed up the process, the borrowers seek intervention of some influential people known to them. To probe into such inconvenience, a question was put whether the borrowers have sought interventions of any third party in speeding up the loan processing. By analysing the frequencies, it is found that around 33% of the respondents have sought such intervention and an inter institutional comparison reveals that the percentage is relatively high in case of SBI (62%) followed by MKVIB (23%) and the least percentage (21%) has been found in case of MKVIB borrowers.

Table 6: Assistance Seek For Speeding Up the Loan Disbursal Process

FIs	Responses	F	%
SBI (N=50)	Yes	31	62
	No	19	38
MIDC (N=90)	Yes	19	21
	No	71	79

FIs	*Responses*	*F*	*%*
MKVIB (N=40)	Yes	9	23
	No	31	77
All FIs (N=180)	Yes	59	33
	No	121	67

Source: Field Data

Supporting Documents

The lending financial institutions tend to ensure a high degree of prudence with regard to borrower's credit worthiness for which they insist on several documents and information and on the other hand the credit seeking entrepreneurs face difficulty to procure and submit those supportive documents. In this context the sample borrowers were asked to state if they did face any difficulty in providing the supportive documents along with their loan application and from the analysis (see Table 7) 52% of the total sample borrowers are observed to have faced difficulty in providing supporting documents. While 64% of the MIDC borrowers face problem in providing supporting document the same is recorded at 40% for SBI and MKVIB.

Table 7: Difficulty in Providing Supporting Documents

FIs / *Responses*	*SBI*	*MIDC*	*MKVIB*	*All FIs*
YES	20	58	16	94
	(40%)	(64%)	(40%)	(52%)
NO	30	32	24	86
	(60%)	(36%)	(60%)	(48%)
Total	50	90	40	180

Source: Field Data

Preparation of Project Proposal

Small industrial borrowers particularly in developing regions seek assistance / advice in the preparation of project report (Business Plan) and filling up application form. A question was put to them to know the source of assistance in preparation of the project proposal and it was surprisingly found that none of the borrowers received assistance from the financial institutions. While 51% of the borrowers prepared report by themselves 36% of them received assistance from their friends and relatives and only 13% got assistance from the experts mainly the local practising chartered accountants and DIC executives (see Table 8).

Table 8: Assistance on Preparation of Project Proposal

Sources / *FIs*	*SBI*	*MIDC*	*MKVIB*	*All FIs*
Experts	19	5	0	24
	(38%)	**(5%)**	**(0%)**	**(13%)**
Relative and friends	10	43	11	64
	(20%)	(48%)	(27%)	(36%)
Self	21	42	29	92
	(42%)	(47%)	(73%)	(51%)
Total	50	90	40	180

Source: Field Data

Summary Findings and Conclusion

The study, recognizing the importance of the small enterprise development in India as well as in the state of Meghalaya, has made a humble attempt to highlight the financial infrastructure of the state and further probe has been made with respect to revealing the problems confronted by the borrowers of MSMEs that has led to the delayed in finance that impedes the growth of this sectors.

Findings

Problems confronting the borrowers:

The major findings are stated as the following;

A moderate order of inconvenience (average=3.86) is observed due to perceived complexity of loan application against a relatively low order of problem encountered due to interpersonal behaviour and poor cooperation from the employees (average 3.65 and 3.70 respectively) of the various financial institution. The level of problem associated with loan application form is observed to be higher on case of SBI than MIDC and MKVIB but when it comes to extending cooperation and interpersonal behaviour the problem encountered by the borrowers at SBI is comparatively lesser than that at the two other financial institutions. The coefficients of variation being within 35% the averages are regarded as fair representations of the problems of the individual borrowers.

The financial institutions only focus on their prime function of lending and while viewing from the point of their expected role in a developing region like Meghalaya they are supposed to render some of the ancillary and supportive services to the industrial borrowers, particularly advice and guidance in the functional areas of a business. The functional areas, where less technical advice flows from the financial institutions are production and operation (23.33%), human resource management (17.78%) and accounting (11.67%). When more than 60% of the borrowers are receiving advice from their / lending institutions in the area of finance only 31% derive technical advice in the area of marketing. Majority of the borrowers (66%) visit less than two times to the Finance Institutions in case of SBI whereas majority of the borrower in MDIC and MKVIB visit more than two times before the submission of application form. When it comes to visit between applications and sanction majority visit between 2 to 3 times in MIDC and MKVIB as against more than 3 times in SBI. When it comes to number of visits between sanction and disbursement of loan, majority of the borrowers ticked against *less than two* times for SBI as against two to three times for the other two financial institutions. While majority of the borrowers in all the FIs pay a monthly visit to the institution, instances are there for MIDC and MKVIB where the entrepreneurs visit only once in a year, thereby indicating a poor banker-borrowers' relationship. Close to around 33% of the borrower have expressed that they have taken assistance from others in speeding up the loan disbursal process thereby indicating interference of external forces in the processing of loan either in the form of political or social. This percentage is higher in case of SBI (62%) than in MIDC (21%) and MKVIB (23%). 64% of the borrowers in MIDC have expressed to have failed difficult in providing supportive documents need for processing of their loan as against only 40% in case of SBI and MKVIB.

There is found variation in the inter-institutional practices particularly in duration, ancillary services, the frequency of visit to the financial institutions, customer handling behaviour, and the level of problems faced and satisfaction generation.

Conclusion

It has been observed that one of the several objectives of economic reforms process is to achieve balanced growth of industry in the nation and reduce the inequalities in the industrial base of the nation. The development of the industry has been identified as a key strategic intervention for exploiting backward linkages to agriculture and forward linkages to overall economy including at the global level. The Micro Small and Medium Enterprises (MSMEs) have been considered as an important segment of the Indian economy in terms of their contribution to the country's industrial production, exports, employment and creation of entrepreneurship base. The primary responsibility for promotion and development of MSMEs lies with the state Government. However, the Government of India has taken active interest in announcing policy statements for creating an environment that supports and supplements the efforts of the state Governments. So far as policy in the context of North East India is concerned, the central government has focused on general industrial infrastructure and financial incentives to compensate the operational disadvantages associated with the location of industrial unit in North East India.

Meghalaya, a state known for pressure of overpopulation, typical un-employment and under employment, non-utilisation and underutilization of natural resources, inadequate communication facilities and unique socio-cultural diversity cannot afford to continue with industrial backwardness. The only solution to take care of the major economic problems like poor finance and poor income generation capacity of the state is rapid industrialization by establishing small and micro enterprises. In this connection, concerted efforts have been taken by the State to facilitate growth of MSMEs by formulating in their own industrial policies, several policy measures and incentives to augment industrialisation.

A moderate order of inconvenience is observed due to perceived complexity of loan application. A sizeable number of borrowers are facing problem due to interpersonal behaviour and poor cooperation from the employees of the various financial institutions. Production and operation, Human Resource Management and Accounting are the areas where the small business borrowers are not provided with any technical advice from the side of the financial institutions. Further the borrowers are not motivated to maintain close relationship though which there is a possibility of flow of technical advice on an informal mode. Further, quite a good number of small borrowers are found to have faced the problem regarding supporting documents to be attached with the loan application.

However, recently, there is a growing body of thought among thinkers that MSMEs should be brought under a tectonic shift by drifting them from the incentives and subsidies regime to a regime of inducements that help create an "enabling environment". In fact, such an approach is applicable to countries or states that has scored a high degree of self-reliance on all round development in infrastructures and other supplementary boon for making it an enabling environment.

Suggestions

In the light of findings and conclusion the following suggestions are made here to foster small scale industrialization through institutional financing.

The financial institutions need to scale up their volume of operation by opening new branches and obtaining efficiency in the existing operation particularly through better and meticulous appraisal of loan applications so as to improved inter-personal relationship with the borrowers.

The Financial Institutions should go for an inter-institutional learning. The best practice of one institution can be transferred to another institution operating in the similar environment. For example, the MIDC and MKVIB can improve upon their procedure by taking clue from the SBI in enhancing the technical efficiency whereas the SBI staffs have the opportunity to adopt a good number of soft skills on customer relationship handling from the MIDC and MKVIB.

The loan applications can be further be simplified and periodically training programme may be arranged with the help of suitable NGOs for imparting skills required to prepare project reports. The involvement of the borrowers in the process of application preparation might motivate them to take industrial loan seriously and thereby they will exhibit a better repayment behavior.

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