

# Exploring The Benefits of Bank Financing for MSMEs: Evidence from Assam

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## Abstract

This paper analyses the perceived benefits of various financial loans provided by financial institutions to Micro Small and Medium Enterprises (MSMEs). Financial institutions offer a wide range of loans and services to meet the financial needs of MSME's which includes startup loans, long term loans, working capital loans, overdraft facilities etc. This article examines whether these services have benefited business performance. Based on a sample of 300 MSMEs registered in the Goalpara and Kokrajhar districts of Assam and supported by secondary data from RBI and SLBC reports, the study applies descriptive analysis, Exploratory Factor Analysis (EFA), Confirmatory Factor Analysis (CFA), and Structural Equation Modelling (SEM). Findings show that bank financing has had a positive impact on business growth acceleration and on improving business sustainability. Bank financing also improves financial reporting quality by enabling compliance with Indian Accounting Standards. However, Post Covid crisis, bank financing shows no such evidence of job creation, although it has contributed to improved financial reporting quality due to digital integration such as the UDYAM portal and GST filings. It highlights financial awareness gaps, as well as challenges with outreach and institutional credit distribution in rural areas. These finding hold significance in formulating effective policies and strategies to support the MSME sector.

**Keywords:** Micro Small and Medium Enterprises (MSMEs), financial services, Business growth, Business sustainability, Access to finance, Bank financing

## 1. Introduction

MSMEs are integral to the economic growth and employment generation of a nation. MSME is known as an engine of economic growth globally, due to their significant contribution towards nations GDP and employment generation at a lower cost compared to large industries (Ayyagari et al., 2007). MSMEs can meet the demand of domestic and global markets by producing a diverse range of products and services. Moreover, MSMEs contribute to the industrialization of backward areas and rural areas, thereby reducing regional imbalances and promoting equitable distribution of national income and wealth. Despite being a significant contributor, MSMEs face numerous challenges of financing and the most crucial among them are access to adequate and timely credit at reasonable costs (Thampy, 2010). Recognizing the importance of addressing these challenges, several financial packages have been introduced by governments and disbursed through financial institutions to alleviate the financial constraints and make funds available to MSMEs. Financial institutions can boost the market participants to maximize their investments' productivity, thereby improving income distribution, stimulating growth, and reducing poverty. With fewer functions of financial institutions, growth opportunities can be missed, inequalities may persist, and costly crises may arise. Since liberalization, the financial services introduced have proven to be highly beneficial, with financial institutions serving as the primary source of formal finance for MSMEs in India. Banks account for 87 percent of the total debt supplied to MSMEs within the formal sector, as reported in the 4th census. The significant role of MSMEs in driving economic growth and employment is supported by financial institutions, by providing formal finance and addressing their financial needs. Effective financial services from financial institutions contribute to the overall development and sustainability of MSMEs, thereby boosting economic strength.

## 2. Literature Review

Access to institutional finance is widely recognized as a critical factor for the growth and sustainability of Micro Small and Medium Enterprises (MSMEs). MSME's prefer the formal lending sector over informal sector because of the credibility of such lending institutions (Beck et al., 2008). MSMEs need a special credit policy, especially at the start-up stages, to ease liquidity constraints and enable business expansion (Thampy, 2010). Several empirical studies have confirmed that institutional financing positively influences MSME growth. Khan (2015) found that bank financing is a significant source towards the growth of SMEs, and informal sources have a negative influence on the growth of SMEs. The study by Singla and Grover (2012) similarly established a statistically significant relationship between credit flow from Scheduled Commercial Banks and MSME growth in India. Dube (2013) A study from Zimbabwe found that enterprises with adequate access to debt financing showed improved productivity and financial performance, although high borrowing costs were a concern

among them. A large proportion of MSMEs still lack access to timely and adequate institutional credit despite various initiatives by the government. U.K. Sinha Committee Report (2019) states that MSME sector in India suffers from a credit gap of 20 to 25 lakh crores. Similarly, Surveys by Resurgent India and ASSOCHAM show that only one-third of MSMEs rely on banks, with many MSMEs reporting in delays and procedural hurdles in availing loans. Institutional finance also plays a crucial role in sustaining businesses over the long term beyond short-term growth. Xiang and Worthington (2017) observed that government-backed financial assistance provided additional performance benefits to SMEs in Australia beyond conventional credit. Mand et al. (2018) emphasized the motivational role of bank finance in promoting women's entrepreneurship in India. The study revealed that external funding positively influences innovation and long-term engagement. Beck et al. (2008) further noted that financial inclusion leads to improved resource allocation and income distribution, both of which are key to long-term sustainability. Debt financing also helps in improving cash flows, boosting liquidity, and routing towards technology and innovation investment, and thereby maintaining stability. Jepkorir and Mwangigichure (2019) in Kenya found a positive correlation between debt finance and SME growth, highlighting that maintaining a good financial track record is vital for sustained funding access. Cámara and Tuesta (2014) proposed that tailored banking services such as term loans, working capital loans, and overdraft facilities are instrumental in facilitating operational efficiency and mitigating economic shocks. However, the COVID-19 pandemic disrupted the traditional flow of institutional credit and forced MSMEs to rely on digital finance alternatives to keep their businesses functioning (United Nations ESCAP, 2022). Enterprises that adopted digital tools for loan access were more resilient, but those that did not use digital platforms were forced to close. Following the pandemic, MSME financing has gradually shifted toward data-driven fintech models, leveraging technologies such as AI, big data, and blockchain to improve credit access and resilience (Pellegrino and Abe, 2022). Credit access has been more efficient because of the growth of fintech platforms after COVID-19. According to CredAble (2024), India's MSME sector faces a credit deficit of \$530 billion, with digital lending and supply chain finance emerging as important solutions. According to the India Digital SME Credit Report 2023, fintech platforms in Tier 2 and 3 cities have improved credit availability by using alternative data such as GST returns, UPI transactions, and utility payments, which reduces reliance on collateral and paperwork. Fintech-led financial digitization has been critical in assisting underserved MSMEs, particularly during economic downturns (Pellegrino and Abe, 2022). Despite the existing literature linking institutional finance to MSME growth, limited research focuses on how these dynamics manifest in underrepresented regions like Assam. Mostly after the COVID-19 crisis, the study on the effect of different financial services on growth and sustainability continues to be overlooked in research, and thus, to address these gaps, the study aims to empirically evaluate how financial support from banks influences the growth and sustainability of MSMEs in Assam.

## 2.1 Objectives of the Study

The objectives of the study are as follows:

- 1) To analyze the flow of credit to MSMEs through Scheduled Commercial Banks in India and in Assam.
- 2) To examine the benefits of institutional finance on MSMEs' growth & business Sustainability.

## 2.2. Hypotheses of the Study

H1: Bank finance has a significant positive effect on MSME growth.

H2: Bank finance has a significant positive effect on MSME sustainability.

## 3. Credit Flow to MSMEs in India and Assam

India's formal financial system includes a strong commercial banking sector. Schedule Commercial banks account for more than 90 percent share of the overall credit (U.K. Sinha Report, 2019). The Reserve Bank of India regulates MSME lenders in India, while the Securities and Exchange Board of India (SEBI) manages the institutions that provide or facilitate capital to MSMEs. Apex institutions like SIDBI (Small Industries Development Bank of India) and MUDRA (Micro Units Development and Refinance Agency Ltd) provide sectoral assistance and are overseen by the Central Government. As per the Ministry of MSME, financial institutions infuse term loans, working capital loans, risk capital, seed capital, and bridge loans into MSME during the startup and growing stages. The Government of India has continuously endeavored to aid MSMEs under various schemes through financial institutions. Commercial banks, SFCs (State Financial Corporation), SIDBI, and SIDC (State Industrial Development Corporation) provide medium and long-term loans. On the other hand, short-term credit is also demanded by MSMEs to fund their day-to-day needs for raw material purchase, wages for labour and staff payments, and similar other administrative expenses. Commercial banks supply short-term working capital loans and cash credit to MSMEs. Today, Banks are progressing in lending and extending support to the MSMEs, mostly due to their technological advancement, better management decisions, and better risk predictions. The credit flow towards the priority sector and MSMEs can be seen having continuous growth as per Table 1.

Following the introduction of the MSME Act 2006, the Credit flow to the MSME sector from financial institutions has exhibited a consistent increase over the years, with the increase in priority sector advances (PSA). However, year-on-year growth in credit to the MSME sector began declining from 2014-2015 until 2019-2020, as indicated in Table 1. If we look at the percentage of MSME contribution to Priority Sector Advance (PSA), it has been stable at more than 40 percent until 2016-2017, after which it declines. The drop in loan flow was mostly caused by the 2014 economic downturn (Report on Trend and Progress of Banking in India 2014-15) and the demonetization of specific bank notes in 2016 (Report on Trend and Progress of Banking in India 2016-17). However, in 2017-2018 credit growth recovered, which was largely driven by a recovery in credit to Micro Small and Medium Enterprises. Within the MSME sector, the service MSMEs are the only category that has experienced an increase in the share of the total MSMEs. The share of medium enterprises has consistently declined, whereas that of the manufacturing MSEs credit has been fluctuating; it had shown growth until 2014-15 and has declined ever since, and has experienced a little growth since 2021-2022. Credit flow to medium enterprises has remained stagnant with occasional dips throughout the period and a slight growth since 2020-2021. Bank lending to service MSEs has grown at consistent rates throughout the decade 2008-22, while for manufacturing enterprises witnessed a reduced pace of growth.

**Table 1:** Credit Flow to MSME in India

FY	Priority Sector Advance (PSA)	Total Bank Credit to MSME (TBC)	YOY Credit To MSME	TBC / PSA	Manuf.	Service	Medium Enterprises (MED)	% Share of Total Credit		
					Micro & Small (MMS)	Micro & Small (SMS)		MMS.	SMS	Med
2007-08	7481	3629	0	49%	1327	1194	1108	37%	33%	31%
2008-09	9325	4314	19%	46%	1690	1402	1222	39%	32%	28%
2009-10	10922	5061	17%	46%	2064	1,671	1326	41%	33%	26%
2010-11	12624	5593	11%	44%	2102	2,326	1,165	38%	42%	21%
2011-12	14210	6235	11%	44%	2367	2,620	1248	38%	42%	20%
2012-13	15398	6869	10%	45%	2843	2,779	1247	41%	40%	18%
2013-14	18297	8319	21%	45%	3482	3,596	1241	42%	43%	15%
2014-15	20103	9248	11%	46%	3800	4,203	1245	41%	45%	13%
2015-16	22259	9624	4%	43%	3715	4,761	1148	39%	49%	12%
2016-17	24357	10067	5%	41%	3697	5,322	1048	37%	53%	10%
2017-18	25,532	11,001	9%	43%	3,730	6,234	1,037	34%	57%	9%
2018-19	27,390	11,736	7%	43%	3,755	6,917	1,064	32%	59%	9%
2019-20	37,541	12,111	3%	32%	3,858	6,929	1,324	32%	57%	11%
2020-21	40,504	14,581	20%	36%	4,332	7,835	2,414	30%	54%	17%
2021-22	45,431	17,298	19%	38%	5,328	8,451	3,519	31%	49%	20%
2022-23	50,593	19,693	14%	39%	5,984	9,719	3,990	30%	49%	20%

**Source:** Compiled from RBI: RBI BULLETIN: Deployment of Gross Bank Credit by Major Sectors- Relevant

**Table 2:** Bank wise Credit Flow to MSMEs in India

FY	'In Cr.			Total SCB	% Share of Total Credit		
	Public Sector Bank (PSBs)	Private Sector Banks (PVBs)	Foreign Banks (FBs)		PSBs	PVBs	FBs
2013-14	758378	247122	34430	1039930	73%	24%	3%
2014-15	852689	281548	36787	1171026	73%	24%	3%
2015-16	820548	359085	36374	1216007	67%	30%	3%
2016-17	828933	430963	36503	1296399	64%	33%	3%
2017-18	864598	410760	48881	1324239	65%	31%	4%
2018-19	880033	563678	66939	1510651	58%	37%	4%
2019-20	893315	646988	73279	1613582	55%	40%	5%
2020-21	908659	792042	83224	1783925	51%	44%	5%
2021-22	955860	969844	85352	2011057	48%	48%	4%

**Source:** Compiled from RBI Report & U K Sinha Report

Schedule Commercial banks are the primary source of financing for the MSME sector. The public sector banks (PSBs) have remained the highest percentage of loans throughout the entire period. However, the public sector banks' (PSBs) share of overall loans to MSMEs dropped from 65 percent in 2017-18 to 48 percent in 2021-22. Credit growth to MSMEs surged in 2018-19, primarily due to aggressive credit expansion by private sector banks (PVBs) following a decline in 2017-18. Since 2018-19, private sector banks (PVBs) lending to MSMEs experienced substantial growth that outpaced PSBs. Credit growth to MSMEs in the industrial sector saw significant year-on-year growth in the post-COVID era, mainly due to incentives offered by the Emergency Credit Line Guarantee Scheme (ECLGS), which helped boost credit to MSMEs. (Report on Trend and Progress of Banking in India, 2021-22) Simultaneously, the inclusion of wholesale and retail trade in the MSME category beginning in July 2021 has contributed to an increase in overall lending to the MSME sector. The Foreign banks' lending remained steady with a fall in 2021-2022. Despite the continuous growth in credit flow, various reports have indicated a huge gap in credit in these sectors. These sectors are being affected by the recurrent funding constraint, rising borrowing rates, shrinking export demand, delay in payment, a lack of government incentives for loss-making units, and rigorous regulatory impediments to business expansion. As per the latest 4th Census on MSMEs (2006-07), only 5.2 percent (13.5 lakh units) of total enterprises (261 lakh units) availed credit from financial institutions. According to the IFC Report (2018), formal sources account for just 16 percent of overall MSME debt finance, or INR 10.9 trillion (USD 168 billion). According to Sinha (2019) the entire credit gap in the MSME sector is estimated to be 20-25 trillion (Rs. 20-25 lakh crore). According to a joint survey performed by financial advice company Resurgent India and ASSOCHAM, approximately 33 percent of the country's MSMEs have the access only to banks or institutional financing channels but lack timely and appropriate loan availability. According to CIBIL data, MSME credit outstanding as of March 31, 2021, was around Rs. 20 billion. As per Price Waterhouse Coopers' (PwC) report on the MSME gap by 2024 will be projected at Rs. 37-40 trillion (Rs. 37-40 lakh crore) respectively

## 4. MSME Financing in Assam

In Assam, about a third of the Gross State Domestic Product (GSDP) comes from the industrial sector, which generated over five lakh jobs as per the report by the Economic Survey of Assam 2021-22. Despite this, MSMEs are struggling with a funding crunch, much like other parts of the country. Extreme weather events like floods and unprecedented rainfall have affected small entrepreneurs in the region. The proportion of credit given to MSMEs in Assam has been increasing year by year since 2012-2013. Year-on-year growth in Credit to the MSME Sector in Assam has been fluctuating like that of the whole country. The data indicate that both bank loans to MSMEs in Assam and the proportion of MSMEs in Assam to MSMEs in India have grown over time. Despite changes in growth rates, there is a general upward tendency, reflecting the growing importance of MSMEs in Assam's economy. In recent years, there has been a significant rise in bank lending to MSMEs in Assam, indicating rising support from financial institutions and a possibly improved business environment.

**Table 3:** Flow of Credit to MSMEs in Assam

FY	Bank Credit to MSME in India	YOY (MSME India)	Bank Credit to MSME in Assam	YOY (MSME Assam)	Proportion MSME Assam / MSME
2012-13	687000	10%	1084	0	0.16%
2013-14	831900	21%	1774	64%	0.21%
2014-15	924900	11%	1631	-8%	0.18%
2015-16	962400	4%	2111	29%	0.22%
2016-17	1006800	5%	4932	134%	0.49%
2017-18	1100100	9%	10562	114%	0.96%
2018-19	1173570	7%	11211	6%	0.96%
2019-20	1211062	3%	10614	-5%	0.88%
2020-21	1373519	20%	12562	18%	0.91%
2021-22	1729748	19%	10756	-14%	0.62%
2022-23	1969303	14%	20866	94%	1.06%

**Source:** Compiled from RBI bulletin & State Level Bankers' Committee Assam Reports

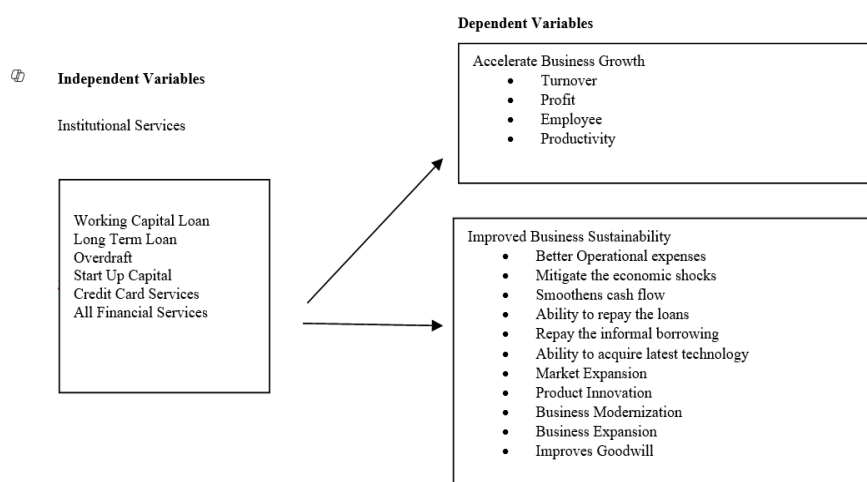
## 5. Data and Methodology

This paper is based on exploratory research. Both primary and secondary data are collected for the study. For the study, the flow of credit to MSMEs through Scheduled Commercial Banks in India and in Assam, Secondary data are being obtained from RBI publications and SLBC Assam (State Level Bankers Committee) reports. And to study the benefits of institutional finance on business growth and business sustainability, primary data were collected from 300 MSMEs that are the beneficiaries of banking services. These districts were selected purposively due to the presence of Industrial Growth Centers and access to institutional banking facilities. A non-probability convenience sampling method was employed, acknowledging that the findings may not be statistically generalized but still offer valuable insights into the local MSME ecosystem. A questionnaire was prepared based on the existing literature (Sefiani, 2013; Chong, 2008; Cámara & Tuesta, 2014) and included 15 variables to assess the perceived benefits of institutional finance and 6 variables representing types of financial services. Respondents were surveyed using a five-point Likert scale. Growth-related variables included turnover, production, profitability, and employment. Sustainability factors included cash flow management, risk mitigation, loan repayment, technology adoption, market expansion, and goodwill. Services assessed included startup loans, working capital, overdrafts, long-term financing, credit card facilities, and all financial services.

## 6. Diagrammatic Framework of the study:

### 6.1 Conceptual Framework

The conceptual framework illustrates how independent variables and dependent variables relate to each other. The dependent variables for the study were various financial services offered by the financial institutions, while the independent variables for the study were the various dimensions of the benefits.



**Fig. 1:** Conceptual Framework of Variable Relation

## 6.2 Frequency Table and Descriptive Statistics

**Table 4:** Respondents' frequency table

Categorical Variables	Profile	Frequency	Percentage
Gender	Male	224	75%
	Female	76	25%
Ownership Type	Sole Proprietorship	268	89%
	Partnership	31	10%
	Private Limited Company	1	0%
Educational Level	School Education	51	17%
	HS/12 <sup>th</sup>	121	40%
	Graduate	112	37%
	Post Graduate & Above	16	5%
Location	Urban	205	68%
	Rural	95	32%
Marital Status	Married	205	68%
	Unmarried	95	32%

**Source:** The authors

Table 4 above shows the frequency distribution, where 224 respondents were male entrepreneurs and 76 were female entrepreneurs. For the study, 89 percent of the firms are sole proprietorships, 10 percent are partnerships, and 1 percent are private limited companies. The most common qualification among respondents is an HS/12th qualification, while a graduate entrepreneur is 37 percent. This indicates a trend where more qualified individuals are opting for entrepreneurship as a viable source of income. The location-wise distribution shows that 68% (205 respondents) operate in urban areas, whereas 32% (95 respondents) are based in rural areas. Similarly, 68% (205 respondents) are married, with the remaining 32% (95 respondents) being unmarried.

**Table 5:** Descriptive Statistics

Descriptive Statistics				
Sl. No.	Dimensions of Benefits	N	Mean	Deviation
1	Increase in turnover	300	3.68	0.974
2	Increase in profit	300	3.64	0.890
3	Increase in productivity	300	3.58	0.909
4	Increase in employees	300	2.15	0.864
5	Better operational expenses	300	3.73	0.882
6	Mitigate economic shocks	300	2.98	0.836
7	Help smoothen cash flow	300	3.70	0.937
8	Ability to repay the loan	300	3.13	0.826
9	Repay the informal borrowing	300	3.14	0.800
10	Acquiring the latest technology	300	3.06	0.842
11	Business modernization	300	3.07	0.790
12	Product innovation	300	3.05	0.787
13	Business competitiveness	300	3.10	0.784
14	Business expansion	300	3.10	0.745
15	Improves goodwill	300	3.03	0.792

**Source:** Computed

Table 5 above shows the descriptive statistics. The mean scores on various dimensions of perceived benefits of banking service were calculated, and the results are illustrated in Table 5. A mean score of more than 3 indicates substantial benefits from the banking services, while less than 3 indicates relatively lesser benefits. All the benefits above, like the increase in turnover, profits, and productivity, are far greater than 3, except the increase in the number of employees and the ability to mitigate economic shocks were less than 3 mean scores. This trend may be attributed probably due to the COVID-19 crisis, where the entrepreneurs were forced to reduce employment and operate with a limited number of employees.

## 7. Factor Analysis

To examine the benefits of MSMEs after obtaining financial services from financial institutions, Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) were employed to confirm the effects and correlation of variables on identified factors. Structural Equation Modelling (SEM) was also used to test the proposed relationships between variables.

### 7.1. KMO (Kaiser-Meyer-Olkin) and Bartlett's Test

For the KMO (Kaiser-Meyer-Olkin), the value was 0.953, and Bartlett's Test of Sphericity ( $\chi^2 = 5467.96$ ,  $p < 0.001$ ) showed that the data are suitable for factor analysis. Exploratory Factor Analysis (EFA) using Principal Component Analysis, with Varimax rotation, selected three factors with eigenvalues greater than one, accounting for 70.5% of the total variance. These were identified as Business Sustainability (31.12%), Business Growth (20.67%), and Bank Finance (18.71%). Convergent validity was ensured as all factor loadings were above the threshold of 0.50 and there were no cross-loadings. Composite Reliability (CR) values exceeded 0.85 and Average Variance Extracted (AVE) varied from 0.52 to 0.54, therefore providing both adequate internal consistency and convergent validity.

## 7.2. Confirmatory Factor Analysis (CFA) and Structural Equation Modelling (SEM)

For factor structure validation, CFA was conducted, and model fit indices (CFI > 0.90, RMSEA < 0.08) showed acceptable levels. The validated structure is subsequently utilized in SEM to examine the effect of Bank Finance on MSMEs' outcome.

## 7.3. Path Analysis

Both paths were statistically significant, as shown in the model Fig.1. The standardized effect of Bank Finance was stronger on Sustainability (0.89) compared to Growth (0.81), suggesting a greater influence of formal financing on the sustainability of business.

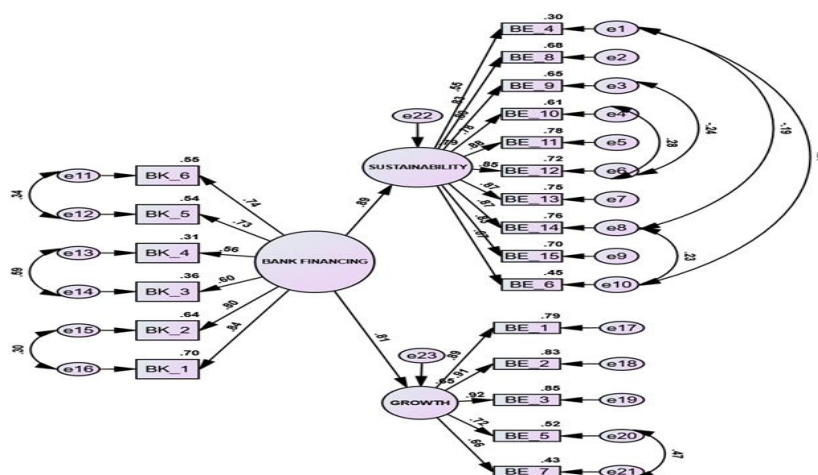


Fig. 2: Structural Equation Model (SEM)

The structural equation model, as shown in Fig. 2, depicts how bank funding affects the growth and sustainability of Micro Small and Medium Enterprises (MSMEs). Bank Financing acts as the exogenous latent variable while Growth and Sustainability are the two endogenous latent constructs in the model. The model indicates that bank financing has a strong positive effect on growth (path coefficient = 0.81) and a significant positive effect on sustainability (path coefficient = 0.89). The model suggests that institutional finance access is crucial not only for expanding business operations but also for ensuring long-term viability and stability. The construction of Bank Financing is measured through six observed indicators (BK\_1 to BK\_6), with factor loadings ranging from 0.31 to 0.70, reflecting moderate to strong associations. The Growth dimension is assessed using five observed indicators (BE\_1 to BE\_7), where loadings range between 0.43 and 0.83, indicating a robust measurement model. Similarly, Sustainability is evaluated through ten indicators (BE\_4 to BE\_15), demonstrating high internal consistency with loadings as high as 0.88. Correlated error terms between some observed variables (e.g., BE\_4 and BE\_5) suggest shared variance due to related sub-themes within the constructs. The model results validate that institutional credit support through banks plays a vital role in fostering both immediate growth and long-term sustainability among MSMEs, thereby underscoring the importance of effective financial provisioning in this sector.

## 7.4 Hypothesis Testing

Two hypotheses for Testing were

- H1: Bank Finance has a significant positive benefit on the Growth of MSMEs.
- H2: Bank Finance has a significant positive benefit on the Sustainability of MSMEs.

The hypotheses formulated above are based on the objectives of the study and the review of literature, which are evaluated and tested in the context of the conceptual model sketched and confirmatory factor analysis conducted. This section focuses on testing these hypotheses to assess their validity. Before directly proceeding to the test of hypotheses, the analysis of coefficients for the relationships of variables in the following paragraphs is presented below-

Table 6: Analysis of Regression for Latent Variables in the Model

Path			Estimate		S.E.	C.R.	P
			Unstandardized	Standardization			
MSME Sustainability	<---	Bank Financing	0.60	0.887	0.067	8.959	< 0.001*
MSME Growth	<---	Bank Financing	0.977	0.807	0.079	12.609	< 0.001*

Source: Computed

The unstandardized coefficient of Bank Financing on MSME Sustainability is 0.60, which represents the benefit of Bank Finance on the business sustainability of MSME, holding the other path variables constant. The estimated positive sign implies that sustainability would increase by 0.60 for every unit increase in bank finance, and this coefficient value is significant at a 1 percent level of significance. The conceptual implication is that sustainability (Sustainability of MSME) is influenced by the availability of bank finance. The unstandardized coefficient of Bank Finance on MSME Growth is 0.977, which represents the benefit of Bank finance on the business growth of MSME, holding the other path variables constant. The estimated positive sign implies that sustainability would increase by 0.977 for every unit increase in bank finance, and this coefficient value is significant at a 1 percent level of significance. The conceptual implication is that Growth (Growth of MSME) is influenced by the availability of bank finance.

## 7.5 Result of Hypothesis Testing

H1: Bank Finance has a Significant Positive benefit on the Growth of MSMEs.

This hypothesis is about the direct effect of bank finance on the growth of MSMEs. Since the P-value is less than 0.001, the research hypothesis is accepted at a 1 percent level. That is, bank finance has a significant positive effect on the growth of MSMEs. Thus, the research hypothesis is accepted that Bank finance has a significant positive benefit on the growth of MSMEs. Therefore, the bank finance measured in terms of the loan, credit Card, Overdraft, and all financial services has a significant positive effect on the growth of Micro Small and Medium Enterprises expressed in terms of profit, turnover, production, improving operational expenses, and smoothing cash flow.

H2: Bank Finance has a Significant Positive benefit on the sustainability of MSMEs.

This hypothesis is about the direct effect of bank finance on the business sustainability of MSMEs. Since the P-value is less than 0.001, the research hypothesis is accepted at a 1 percent level. That is, bank finance has a significant positive effect on the sustainability of MSMEs. Thus, the research hypothesis is accepted that Bank finance has a significant positive benefit on the sustainability of MSMEs' business. Therefore, the bank finance measured in terms of the loan, credit Card, Overdraft, and all financial services has a significant positive effect on the sustainability of Micro Small and Medium Enterprises expressed in terms of innovation, acquiring latest technology, modernization, improving goodwill, expansion, ability to repay loans etc.

## 8. Discussion

The findings of this study show that a significant contribution of institutional financing towards the growth and sustainability of the business. With the growth of institutional finance, enterprises grow by 97.7 percent and improve business sustainability by 60 percent. It plays a pivotal role in enhancing the financial performance of the units as they directly impacting metrics such as turnover, profit, increase in productivity and helps in managing operational expenses, smoothing cash flow, helping to mitigate risk, ability to repay the loan, ability to acquire latest technology, market expansion, product innovation, healthy relationship with banks, and a build a good track record(Beck et al., 2008; Chong, 2008; Khan, 2015; Mand et al., 2018). Despite the bank financing benefit, MSMEs had to reduce employment after the COVID-19 crisis due to market uncertainty. Business focused on stability, debt repayment over expansion.

### 8.1 Discussion on Employment Reduction

Bank financing was found to have significantly contributed to growth and sustainability as per the study. However, the result shows that such financing has no substantial impact on employment after the COVID-19 crisis. During and after Covid, SME's shifted credit usage toward survival and working capital, ignoring expansion. Bank financing ignored the growth need, which resulted in highly leverage SMEs facing reduced investment capacity and minimal employment generation (Bräuning et al., 2024). The pandemic caused a 25% decline in MSME employment, hitting informal workers the hardest, with smaller and younger firms more vulnerable, highlighting that resilience grows with firm size and age amid insufficient government support (Sharma & Rai, 2023). Most of the MSMEs used the accessed credit to repay debt, liquidity improvement, and digital adoption rather than recruiting. Digital adoption and pandemic driven automation reduced labour intensity in some sectors (McKinsey Global Institute, 2021). Similarly, in Assam also the handicraft sector, known for high employment generation, was severely affected due to reduced demand, lack of market access, transport restrictions, and inadequate storage facilities during and after the Pandemic (Goswami & Goswami, 2021). The COVID-19 lockdown caused a ₹21,402 crore GSDP loss in Assam, which impacted the informal sector severely. Employers had to cut jobs due to a decrease in revenue and uncertainty, worsening unemployment (Baruah, Das, & Choudhury, 2020). Post-COVID government liquidity support schemes, such as the Emergency Credit Line Guarantee Scheme (ECLGS), only provided short-term relief as their design was not to prioritize employment generation.

### 8.2 Discussion on Accounting Implications

Asymmetry of information acts as a barrier to accessing credit from banks, and reliable and accurate information acts as a key enabler in getting the credit. Berger and Udell (2006) noted that financial institutions use audited financial statements to anticipate the borrower's repayment capacity. Empirical evidence by Alduraywish (2023) shows that Audited businesses receive larger and faster loans at lower interest rates. On the contrary, many MSME fails to obtain credit or loans due to inadequate documentation, inconsistent reporting, and failure to have accounts audited (IFC, 2017; OECD, 2018). Most Indian MSMEs use cash-based accounting, which inhibits their credit-worthiness (Thampy, 2010). In India, 68% of MSMEs reported company growth after implementing digital technology, and 29% utilize accounting software to provide real-time and compliance records, which improves transparency and simplifies bank evaluations (PayNearby, 2024). Post-COVID reforms such as the UDYAM portal and GST filings have pushed MSMEs toward formalized reporting, enabling data-driven lending (Standing Committee on Finance,2022).

## 9. Conclusion

Major concern remains on the significant proportion of SMEs that are not utilizing bank loans to fuel their growth. SMEs instead rely to alternative forms of financing. The reality is that the reach of bank financing to all the needy MSMEs falls far short of the demand. The UK Sinha Expert Committee on MSMEs Report cited that the overall credit gap in the MSME sector is estimated to be Rs. 20-25 lakh crore. The Committee suggested a time-bound plan for precisely estimating this credit gap and subsequently closing it with the help of suitable policy measures and targeted initiatives. The committee's advice should be applied on real grounds to overcome the different obstacles to getting funds from financial institutions.

## Suggestion

1. The government should further expand the coverage of the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and encourage collaborations with fintech companies, such as the recent partnership between the Small Industries Development Bank

of India (SIDBI) and a fintech company CredAble (CXOToday, 2025). The collaborations of Fintech leverage technology for credit assessment, which will enable faster and more inclusive access even to remote areas like Assam.

2. A centralized MSME Credit Portal under SIDBI is recommended to replace the underperforming Udyami Mitra platform. By integrating banks, Non-Banking Financial Companies (NBFCs), and fintech's, and offering end-to-end digital services like e-KYC and CGTMSE linkage, the portal can streamline applications, improve transparency, and reduce the MSME credit gap.
3. Promotion of UPI enabled digital lending like RuPay credit lines and UPI linked bank loans will provide instant, low-cost credit access to MSMEs, especially in rural areas (EY, 2025; Reuters; Economic Times).
4. Financial literacy campaigns in rural Assam are essential to empower entrepreneurs with credit knowledge. A more of a programme name like "Krisarthak" (A Program on financial education and counselling) should be introduced to create awareness among entrepreneurs to raise awareness about the available schemes.
5. Targeted training on Indian Accounting Standard can enhance MSMEs' financial reporting and improve creditworthiness.

## Future research

Generalizability may be improved by comparative analyses with other Indian developed states (such as Maharashtra and Gujarat) and conducting longitudinal studies on post-COVID recovery. Another interesting avenue is to investigate how digital lending channels, including UPI-based systems, affect MSME funding.

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