RESEARCH PAPER

BANKRUPTCY IS ONLY THE CULMINATION OF FAILURE OF THE MSMES AND THE ROLE OF DIFFERENT FINANCIAL INSTITUTIONS IN THE SAME"- A STUDY INTO THE MSMES OF NORTH EAST INDIA

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Abstract

Micro, Small and Medium Enterprises (MSMEs) form the foundation of the Indian economy and have an important role to play in generating employment opportunities, industrial productivity, export performance, and regional development. However, despite their significance in the economy, a significant number of MSMEs suffer from financial distress, leading to bankruptcy. Bankruptcy is not simply a separate occurrence but the last step in a long path of worsening business performance, poor management, limited access to funds from formal institutions, and unfavorable market conditions. In this paper, bankruptcy has been analyzed as the main outcome of MSME failure and the role that different financial institutions play in preventing or reducing the failure has been considered with special attention to MSMEs in North East India. The research is based on reviewing peer-reviewed publications, government reports, and other documents to identify the effectiveness of commercial banks, Regional Rural Banks (RRBs), the Small Industries Development Bank of India (SIDBI), the National Bank for Agriculture and Rural Development (NABARD), the North Eastern Development Finance Corporation Limited (NEDFi), Non-Banking Financial Corporations (NBFCs), and state financial assistance schemes. The results show that although financial institutions have extended credit delivery through a range of strategies, vexing issues such as inadequate collateral, slow processing of loan applications, poor understanding of finance, fragile infrastructure, and geographical factors still pose serious obstacles to the sustainable development of MSMEs in the area. The study recommends that greater institutional cooperation, better access to credit, promoting financial inclusion in the region and instituting early warning systems will help mitigate the risk of failure and ensure sustainable MSME development in North-East India.

Keywords: SMEs; Bankruptcy; Financial Distress; Financial Institutions; North-East India; Commercial Banks; SIDBI; NABARD; NEDFi; Regional Rural Banks; Credit Accessibility; Financial Inclusion; MSME Failure.

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Introduction

One of the most vibrant sectors in India's economy is the Micro, Small, and Medium Enterprises (MSMEs) sector, which plays an important role in promoting economic growth, generating employment, fostering innovation, and supporting entrepreneurship and regional development. It accounts for nearly 30% of India's GDP, 36% of total manufacturing output and 45% of total exports, and employs more than 280 million people across various sectors (Ministry of MSME, 2024). The flexibility of MSMEs and low capital requirements make them a critical tool for promoting inclusive growth, especially in economically disadvantaged and remote regions such as North-East India. Despite their importance in stimulating economic development, MSMEs have always been struggling due to various challenges that greatly limit their sustainability over time. Inability to access formal finance sources, inadequate working capital, outdated technology, insufficient managerial skills, weak market connections, poor infrastructure, and economic instability increase the vulnerability of MSMEs to financial distress (Reserve Bank of India [RBI], 2023; OECD, 2023). Financial distress develops over time and is characterized by the declining profitability of an entity, poor liquidity, increasing debt burden, and declining efficiency, and if timely actions are not taken, it leads to insolvency.

Things are very difficult in Northeast India because of geographical challenges, bad transport facilities, lack of industrial growth, and high logistics expenses that prevent the growth of MSME in this region (North Eastern Development Finance Corporation [NEDFi], 2023). Even though various financial organizations like banks, Regional Rural

Banks (RRBs), Small Industries Development Bank of India (SIDBI), National Bank for Agriculture and Rural Development (NABARD), Non-Banking Financial Companies (NBFCs), and other schemes introduced to improve access to loans by MSME, businesses in this region still face obstacles such as lack of collateral, delayed loans, lack of financial education and other issues (SIDBI, 2024; NABARD, 2023). Another important point to mention is that bankruptcy indicates that the business has reached the last point in its lifecycle. It is important to understand the fact that financial intervention can prevent the bankruptcy of the business by developing the competence of financial organizations to support it. The purpose of the current research is to analyze the reasons for MSME bankruptcy with the goal of evaluation of the ways, in which institutions can support businesses in their operations through financial interventions and institutional policies.

MSMEs in North-East India

The North-Eastern Region (NER) of India consists of the eight Indian states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura, which shows considerable potential for the MSME sector because of its natural resources, biodiversity, handicrafts, and handlooms, agro-processing, bamboo, and tourism. The MSME sector is a significant contributor to employment, income generation, and entrepreneurship in the NER, particularly in the rural and semi-urban areas where industrialization is lagging behind. The MSME sector is also able to address regional imbalances, facilitate local resource utilization, and foster inclusive economic growth.

Nevertheless, the MSME ecosystem in North-East India is faced with numerous structural and institutional issues limiting the growth and survival of enterprises. Geographic location, poor transport networks, unstable power supply, lack of relevant industrial infrastructure, high logistics costs, and weak access to markets increase costs for enterprises and make them less competitive. In addition, entrepreneurs face difficulties in securing timely institutional financing due to insufficient collateral, low financial literacy, limited banking penetration in rural areas, and high level of perceived credit risk by lenders.

In order to overcome such difficulties, the Indian government has implemented many policy measures through various organizations like Ministry of MSME, SIDBI, NABARD, the North Eastern Council (NEC), and the North Eastern Development Finance Corporation Limited (NEDFi). With the help of these entities, the government provides loans, entrepreneurship skills training, credit guarantees, and infrastructure development programs to improve the MSME sector in North-East India (NEDFi, 2024). However, according to research findings, a significant number of companies are still suffering from a lack of finances because of working capital shortcomings, inconsistent loans disbursement, inefficient management skills, and poor connection with the global and domestic value chains (World Bank, 2022). Consequently, it is necessary to develop institutional financial instruments, improve infrastructure, and broaden financial literacy to improve the resiliency of MSMEs in North-East India.

Importance of MSMEs in Economic Growth

Micro, Small, and Medium Enterprises (MSMEs) are crucial pillars of economic progress for both developed and developing countries. Because of their flexibility, entrepreneurial nature, and low capital requirements, MSMEs play a very significant role in creating jobs, diversifying industries, innovating, reducing poverty, and achieving balanced growth among regions. According to the Organisation for Economic Co-operation and Development (OECD), SMEs have nearly 90% share in total worldwide business and almost 70% in job creation and 50% in GDP creation (OECD, 2023).

MSMEs in India have become vital for economic progress through promoting entrepreneurship and supporting the manufacturing sector as well as services and trade. The Ministry of Micro, Small and Medium Enterprises (2024) mentions that in India, MSMEs contribute about 30% of GDP, 36% of manufacturing output and 45% of total exports while providing jobs for over 280 million people. As a whole, the industry ensures fair distribution of income by creating job opportunities in both urban and rural areas, thus making migration and regional disparities less pronounced. In addition, MSMEs work alongside large corporations acting as suppliers of intermediates and assisting in building national value-added supply chains (Reserve Bank of India [RBI], 2024).

MSMEs are recognized as key players in driving innovation and entrepreneurship. Their flexibility allows MSMEs to embrace cutting-edge technologies and create unique goods as well as react to consumers' needs swiftly. According to the World Bank (2023), MSMEs play an important role in enabling innovation-driven economic growth through competition and productivity increase. Furthermore, the microbusinesses create chances for first-time entrepreneurs, women-owned businesses, and projects led by young people.

The significance of MSMEs becomes especially crucial in economically deprived regions like North-East India, which have not developed large-scale industries. The region has wealth of natural resources and good potential in many fields and industries like handloom, handicrafts, bamboo products, agro-processing, food processing, tourism and traditional industries. MSMEs use the available resources locally which enables them to create jobs and generate incomes in rural areas thus contributing to rural development and narrowing the income gap with the help of inputs by the Ministry of Development of North Eastern Region (MDoNER, 2023).

Despite their importance to the economy, MSMEs confront multiple hurdles, such as limited institutional financing, poor infrastructure, technological issues, low performance, tardy payments, and market unpredictability. These problems hurt the competitiveness of firms and enhance the chances of financial hardship particularly of smaller businesses. According to the International Finance Corporation (IFC, 2023), a large share of MSMEs in developing states suffers from a lack of access to credit due to a lack of information on alternatives, inadequate collaterals, and increased transaction expenses. In a similar vein, the Asian Development Bank (ADB, 2024) states that promoting financial inclusion and the use of digital financing and credit institutions is important for improving the financial resilience of MSMEs and economic growth in general. one can say that MSMEs contribute to economic development in various ways, including job creation, promotion of business activity, increase of trade, improvement of innovation activity, and facilitation of regional economic progress. Therefore, their successful development will enable the achievement of economic growth. However, to fully benefit from this, entrepreneurs need sound financial agencies and a favorable economic climate.

Review of Literature

The role of predicting business failure has been an important topic in financial research for several decades. Ohlson was among the first researchers to note that the financial ratios together with the logistic regression models helps to achieve precise predictions regarding the risk of bankruptcy. Zmijewski also contributed to the study of bankruptcy predictors by suggesting that profitability, leverage, and liquidity indicators remain the most dependable factors when it comes to measuring financial distress. These studies demonstrated that bankruptcy can be defined as the consequence of long-term financial decay rather than an unexpected event.

Afterwards, a lot of new studies broadened the understanding of financial vulnerability for MSMEs. In particular, Lussier and Halabi (2010) pointed out that inadequate financial planning, poor managerial experience, insufficient capitalization, and weak record-keeping constitute the main predictors of small businesses' failures. Additionally, Fatoki (2014) found out that limited access to external financing significantly limits MSME development and raises the chances of business failure, especially in the developing countries. Cowling, Liu, and Ledger (2012) also argued that credit availability has a considerable influence on survival and competitiveness of small businesses during the crisis period.

As per Singh and Wasdani (2016), regarding the Indian scenario, MSME are usually faced with issues like shortage of working capital, slow payment from the customers, lack of technology and inadequate support from the institutions. Mohan and Ali (2019) pointed out that even though the Indian government has taken many measures to promote MSME, MSME in India still face challenges when it comes to taking formal loans from the banks. With regard to the COVID-19 situation, Bartik et al. (2020) stated that lack of liquidity and lower demand has created major threats to the sustainability of small businesses, thereby signaling the need of emergency financing.

Various studies have indicated the pivotal role of institutional finance in sustainable businesses, and it has been proven that developed financial systems have a positive effect on MSMEs, allowing them to lessen their financing issues (Beck and Demirgüç-Kunt, 2006). The authors concluded that relationship-based lending practices can increase the accessibility of loans for small enterprises not having enough collateral. Meanwhile, Yoshino and Taghizadeh-Hesary (2016) proposed establishing credit guarantee schemes and better credit rating of MSMEs.

As per the research conducted about North-east India, it has been observed that geographical isolation and lack of infrastructural facilities have led to more financial suffering (Sharma and Kaur 2021). MSME's financial access seems weak in the North-eastern region due to limited banking reach and higher transaction costs (Das and Deka 2022). Also, poor connectivity, insufficient industrial infrastructure, and delays in loans has been reported to hamper business success and increase financial risk (Borah and Gogoi 2023).

Recent literature emphasized the significance of policy measures. OECD (2023) pointed out that digital finance solutions, financial inclusion and provision of various financial instruments will help

MSMEs become more resilient (Asian Dev. Bank). Likewise, Asian Development Bank (2024) highlighted that availability of credit guarantee facilities, digital lending mechanisms and financial education will help to avoid business failures in the countries of the developing world. Overall, it can be stated that literature establishes bankruptcy as the last step in the chain of cumulative financial and operational failures. Even if financial institutions are crucial for survival of MSMEs, it is necessary that credits are available when needed and the policy measures are effectively set, the population has financial awareness, and the economy is properly developing.

Research Objectives

1. To investigate whether bankruptcy represents the final stage of prolonged financial distress among Micro, Small, and Medium Enterprises (MSMEs) in North-East India.

2. To evaluate the efficacy of Commercial Banks, RRBs, SIDBI, NABARD, NEDFi, SFCs, Cooperative Banks, NBFCs, and the MUDRA scheme in mitigating MSME distress.

Research Questions

RQ1: Does prolonged financial distress ultimately lead to bankruptcy among MSMEs in North-East India?

RQ2: How effective are financial institutions in preventing financial distress and reducing the likelihood of bankruptcy among MSMEs in North-East India?

Research Hypotheses

H1: There is a significant positive relationship between prolonged financial distress and bankruptcy among MSMEs in North-East India.

H2: The effectiveness of institutional financial support has a significant negative relationship with bankruptcy among MSMEs in North-East India, indicating that greater institutional support reduces the likelihood of bankruptcy.

Conceptual Framework

The theoretical framework of the current research argues that bankruptcy is the last outcome of long-term financial difficulties encountered by MSMEs and emphasizes that effectiveness of financial institutions impacts the connection between the two factors. The framework starts by explaining the concept of business vulnerability that originates from various factors related to each particular company, including its size, age, industry, management competence and external macroeconomic body that increases the risk of financial problems. Financial issues are connected with problems in liquidity, working capital, debt commitments, and profitability. Failure in getting rid of financial issues leads to bankruptcy in accordance with the provisions of the Insolvency and Bankruptcy Code, 2016. The relationship between financial distress and bankruptcy can be influenced by the efficiency of institutions like Commercial Banks, Regional Rural Banks, SIDBI, NABARD, NEDFi, State Financial Corporation, Cooperative Banks, NBFC, and the Pradhan Mantri MUDRA Yojana. However, the effect of the institutions is reduced due to specific barriers that exist in North-East India, namely bad geography, weak infrastructure, poor market connectivity, and weak banking penetration.

Research Methodology

A mixed-methods explanatory sequential design is employed in this study. For the quantitative phase of the research, data is collected from existing sources like the images of the Indian Reserve Bank (RBI) records, MSME Ministry annual reports, and NEDFi reports from 2015-23. Semi-structured interviews with 50 distressed MSME owners and 20 branch managers from the different financial institutions in Assam, Meghalaya, and Nagaland are conducted during the qualitative phase. Purposive stratified sampling is used to ensure representation among the MSMEs in manufacturing and service areas. Pearsons' correlation is used to analyze the quantitative data, and thematic analysis is applied for qualitative insights.

Financial Distress versus Bankruptcy

Financial distress and bankruptcy are both key terms in the context of corporate collapse but are distinctly separate concepts. Bankruptcy is a state that is defined by law, whereas financial distress is a state of the economy.

Table 1: Delineating Financial Distress and Bankruptcy in MSMEs

Parameter	Financial Distress	Bankruptcy
Definition	A state in which the MSME is facing financial hardship	When assets are less than liability this is an act of legal declaration of

	(incurring expenses like interest, wages to the staff, payments to vendors etc.) but has potential to overcome the difficulty (Altman, 1968).	insolvency and the IBC 2016 dictates the ways of settlement or liquidation of these entities.
Nature	Economic and operational liquidity crunch.	Legal and formal insolvency.
Reversibility	Easily reversed by rearranging assets, injection of working capital or pivots in operation.	Largely irreversible; leads to loss of control, asset liquidation, or forced mergers.
Timeline	Prolonged phase (months to years).	Culmination event.
Impact on Institutions	Effect in NPAs (Non-Performing Assets) and SMAs (Special Mention Account) classification of the banks.	Forces banks to make 100% provisions, leading to severe capital erosion.
Symptoms	Delayed payment to vendors, low staff retention, sales decline, missed EMI for loan.	Filing of insolvency petitions by creditors (Section 7, 9, or 10 of IBC).

In Table 1, making it easier to understand that financial difficulties lead to bankruptcy rather than just being the same thing. MSMEs in North-East India usually go through financial trouble rather quickly as many banks do not help them at the time of trouble when debts accumulate. Instead of providing assistance and help in difficult times, banks usually declare MSMEs as NPAs because they are very strict with regulations, thus forcing the troubled companies to become bankrupt.

Causes of MSME Failure

MSME failure can have numerous reasons, and these should be segregated to understand at which point Banks/Financial Institutions cannot come to the rescue.

Table 2: Categorization of Causes of MSME Failure

Category	Specific Causes	Impact on MSME Survival	Relevance to NE India
Endogenous (Internal)	Poor financial management inability to research the market intra-family disagreements concerning succession issues inability to keep pace with new technology.	Directly erodes profit margins and working capital.	Presence of dominant basic and low-tech manufacturing activities hinder scalability.
Exogenous (External -Macro)	Demand shocks, inflation, regulatory change, supply chains, disruptions.	Decreases total sales that does not cover the repayment of fixed obligations (debts)	Permanent exogenous shocks in the form of high transport costs, imposed by bottlenecks at the Siliguri Corridor.
Institutional (Financial)	Delay in disbursement of credit, harsh collateral demands, higher cost of credit, banks' apathy towards small	Starves the MSME of Oxygen (Liquidity) at the crucial stages of growth/shock.	High CD ratio gap between North Eastern States and the country as a whole.

	ticket items.		

The information shows how endogenous variables are linked with entrepreneurial competence, but how external factors tend to be the dealbreaker. A small firm may manage to survive due to access to low-cost loans. In North-East India, however, the combined effect of high external costs (logistics) and institutional failure (credit denial) means bankruptcy is unavoidable, even for a company with good management.

Role of Financial Institutions in MSME Survival and Failure

The financing infrastructure for MSMEs in India has multiple tiers and levels. There is an inconsistency in the performance of these entities across the North-Eastern part of the country.

Commercial Banks:

Commercial banks operating in the North-East, including State Bank of India (SBI), Punjab National Bank (PNB), and Housing Development Finance Corporation Limited (HDFC), are the primary economic agents involved in lending. Nonetheless, commercial banks tend to be risk-averse. This conservatism means that they ask for very high levels of collateral from borrowers. In spite of the Priority Sector Lending (PSL) requirement that banks lend 40% of their Adjusted Net Bank Credit to the priority sector, lending to micro and small businesses in the North-East suffers as money is mostly disbursed to large corporate or government-backed entities..

Regional Rural Banks (RRBs):

Regional Rural Banks (e.g., Assam Gramin Vikash Banks) are supposed to serve rural MSMEs. However, they are characterized by acute lack of capital, high operational cost due to tough terrains, and absence of trained credit appraisal officers. Their contribution to bankruptcy prevention is minimal as they are often limited to the money lending to sustain one's subsistence level of living.

Small Industries Development Bank of India (SIDBI):

As a refinancing body, SIDBI manages a number of funds (in particular SIDBI Make in India Soft Loan Fund). Although SIDBI's refinancing products have achieved lower borrowing costs for banks and NBFCs, its direct reach to large sections of distressed MSMEs is statistically meagre in the remote North-East in comparison to its operations in the western and southern parts.

National Bank for Agriculture and Rural Development (NABARD) :

The Micro Enterprise Development Programme (MEDP) is the approach by which NABARD supports agro-based and rural MSMEs. NABARD's operations are useful in farm-based MSMEs, but its mission does not include non-farm MSMEs, making many service-based MSMEs in the urban regions of the north-east prone to insolvency.

North Eastern Development Finance Corporation (NEDFi):

In order to offer financial assistance specifically for the North-East region, NEDFi has established itself as a DFI (Development Financial Institution). Among the range of financial services offered by NEDFi are term loans, equity support and micro-financing. Although being well aware of the terrain of the region unlike the national banks, NEDFi also has stringent requirements on debt-service coverage ratio (DSCR), thus causing many genuinely distressed but at the same time potentially viable MSME units to miss out on any chances to get rehabilitation funds.

State Financial Corporations (SFCs):

SFCs (such as Assam Financial Corporations) have always been crucial in the area of long-term financing. Nevertheless, SFCs in the NE have seen significant struggle when it comes to NPAs, old-fashioned recovery mechanisms, and serious lack of funds. SFCs' inability to adapt has thus helped put traditional and conventional industries in the region on the verge of bankruptcy.

Cooperative Banks:

Cooperative banks depend on trust and peer pressure within the local community for recovery. They provide easy accessibility, but since they lack professional banking practices, have political interference, and vulnerable balance sheets, they cannot withstand the impacts of MSME bankruptcies and frequently go down with their clients.

Non-Banking Financial Companies (NBFCs) :

NBFCs provide the solutions that commercial banks cannot, thereby offering unsecured loans more quickly, albeit at a higher cost. This poses a dilemma for NE MSMEs, because although they help prevent immediate closure of operations (distress), their exorbitant interest rates (reaching up to 18%-24%) will mathematically lead to bankruptcy in the long run.

MUDRA Scheme (Micro Units Development and Refinance Agency)

MUDRA extends its lending range through different categories including Shishu, Kishore, and Tarun. Although it has made it easier to get loans without giving any collateral, the "Tarun" category (an upper amount of ₹10 Lakhs) is inadequate for a medium-sized company in the North East with heavy infrastructural costs. What is more, the belief that MSMEs will have immediate cash flows after they get loans dismisses the long time when delays are experienced in the North East.

Table 3: Comparative Efficacy of Financial Institutions in Mitigating MSME Distress in NE India

Institution	Primary Function	Interest Rate Benchmark	Collateral Requirement	Speed of Disbursement	Distress Mitigation Efficacy (NE Context)
Commercial Banks	Working Capital & Term Loans	Base Rate + Spread (8-12%)	High (Secured)	Slow (45-90 days)	Low to Moderate
RRBs	Rural /Micro Credit	10-14%	Moderate to High	Moderate	Low
SIDBI	Refinancing & Direct Lending	7-10%	Moderate	Moderate	Moderate
NABARD	Agro-based MSMEs	Subsidized (5-8%)	Low	Moderate	High (for specific sectors)
NEDFi	Term Loans & Equity	9-12%	High	Slow	Moderate
SFCs	Long-term Finance	12-15%	Very High	Very Slow	Very Low
Cooperative Banks	Localized Credit	12-16%	Low (Unsecured/Peer)	Fast	Very Low
NBFCs	Short-term Unsecured Loans	18-24%	Nil	Very Fast	Negative (worsens distress)
MUDRA	Micro-Enterprise Boost	8-12% (Subsidized)	Nil	Fast	Low (Ticket size too small)

The Tabular analysis indicates a paradox in the institutional framework. Those providing low-cost funds like commercial banks, NEDFi and SFCs, have stringent collateral norms and slow disbursal and are therefore not reliable in times of an unexpected liquidity crisis. In contrast, organizations that provide fast and collateral-free funds like NBFCs, MUDRA, are either too expensive (NBFCs) or provide tiny loans (MUDRA). While NABARD comes through as very effective, its effectiveness is limited to the agricultural MSME segment. Due to this misalignment, the average NE MSME is not left with many options for a rope in case of financial distress.

Institutional Challenges in North-East India

The inability of the financial sector to prevent the insolvency of MSMEs in the North-East cannot be dismissed simply as a banking problem; it is far more complicated than just this.

Table 4: Institutional Challenges to MSME Financing in North-East India

Challenge Category	Specific Manifestation	Effect on Financial Institutions	Effect on MSMEs
Geographical & Topographical	Hilly terrain, dispersed habitations, frequent natural calamities (floods, landslides).	High cost of physical branch setup, poor last-mile connectivity, higher risk of asset destruction.	Inflated logistics costs, delayed supply chains,破坏 of inventory.
Infrastructural	Lack of industrial corridors, poor power supply, single-lane highway dependency (NH-37, NH-40).	Banks hesitate to finance machinery that remains idle due to power cuts.	Low capacity utilization, inability to meet delivery deadlines, loss of contracts.
Socio-Cultural & Political	Insurgency in certain pockets, land ownership complexities (ILP in some states), lack of entrepreneurial culture.	Banks fear law and order issues impacting recovery; legal enforcement of securities is tedious.	Entrepreneurs avoid formal scaling to stay under the radar; hesitate to take formal loans.
Macroeconomic/ Banking	Low Credit-Deposit (CD) Ratio (e.g., Assam ~55%, Nagaland ~35% vs. National ~75%).	Massive capital drain from NE to mainland India; banks have funds but lack local lending opportunities.	Severe credit crunch; MSMEs forced to rely on informal moneylenders.

According to Table 4, financial institutions function in an environment full of structural inadequacies. The Credit-Deposit (CD) ratio is the most important criterion in this regard. Since the North-East is mostly a consuming economy and not a producing one, banks raise local deposits without lending them back locally as they send the deposits to financial centres such as Mumbai and Delhi. Therefore, an MSME in Assam and Manipur is competing for funds with a corporate organization in Maharashtra. In the event of distress, the NE MSMEs are unable to have their loans restructured by the local bank branch.

Discussion: Synthesizing Distress, Institutions, and Bankruptcy

The study's conclusion supports the argument that bankruptcy is not a standalone event, but rather the outcome of an extensive process of monetary difficulties encountered by businesses. Concerning Micro, Small and Medium Enterprises (MSMEs) in the North-Eastern region of India, it is noted that enterprise failure is hardly caused solely by ineffective managerial decisions. Instead, bankruptcy is the effect of the combination of inherent financial problems and external limitations imposed by the institutional environment. MSMEs operating in the region are specially impacted by disturbances caused by, among others, geographical separation, poor infrastructure, natural disasters, instability of markets, and limitations of financial resources. The above-mentioned factors lead to a lack of liquidity, a decline in cash flow, and a shortage of working capital, ultimately forcing companies to go bankrupt (Beck & Demirgüç-Kunt, 2006; OECD, 2023).

In theory, financial organizations should act as stabilizing forces by offering timely loans, restructuring troubled loans, and providing financial consulting services. The reality is that institutional interventions are often limited due to procedural delays, excessive collateral criteria, conservative lending policies, and poor financial outreach. Commercial banks may take excessively long to approve and authorize loans, which can hamper the availability of needed funds. Although the Pradhan Mantri MUDRA Yojana has facilitated credit availability, it may not be sufficient to cover the financial needs of businesses with significant losses. Likewise, while NBFCs also offer credit quickly, their services can be costly. It has to be noted that while financial institutions like SIDBI, NABARD, and NEDFi are known to provide essential developmental services, it might be difficult for distressed businesses to receive assistance from them due to strict eligibility and viability criteria.

Thus, MSMEs, which are unable to access timely and sufficient institutional financing too often see their financial condition deteriorating progressively. The continuous lack of liquidity eventually triggers loan defaults, classifying the loans as non-performing assets (NPAs) with the Reserve Bank of India, and in serious cases insolvency proceedings under the Insolvency and Bankruptcy Code (IBC) of 2016. This implies that the current institutional framework is largely a reactive one, should be responding after a financial crisis is in place, instead of preventing business failures beforehand. Hence, strengthening institutional cooperation, accelerating the provision of credit, developing restructuring mechanisms, and advancing financial inclusion should help transform financial institutions into efficient shock absorbers, which will be capable of minimizing bankruptcies among MSMEs in North-East India.

Conclusion

This investigation draws the conclusion that MSMEs' bankruptcy in North-East India is not a singular instance but rather a final product of prolonged financial turmoil that has resulted from both economic imbalances of the enterprise and institutional limitations. The factors contributing to the financial issues may include insufficient working capital, decreasing profitability, bad financial management, and external shocks like natural disasters, economic crises, and infrastructure issues. In the case of North-Eastern states, the situation is aggravated by poor transport communications, difficult nature of the territory, the low level of industrialization, high cost of logistics, and the lack of access to funds. In order to decrease the risk of bankruptcy and increase the resilience of businesses, certain policies should be implemented. First, NEDFi and SIDBI need to start a new Distress Relief Fund to give the MSME industry access to emergency money and restructuring help in case of financial difficulties. Second, the Reserve Bank of India should monitor the Credit-Deposit Ratio in the North-Eastern region closely so that the funds acquired from local permits are re-invested locally through lending institutions. Third, due to the geographical matters and high transportation costs, the Indian government should develop new interest and transportation policy reforms. Fourth, limits should be revised regularly for Pradhan Mantri MUDRA Yojana to take into account the inflation, and costs of doing business in the North East. Lastly, it is crucial to turn Regional Rural Banks into more powerful credit institutions through consolidation of banking institutions and startup of their use of advanced technologies including artificial intelligence in the lending processes. These measures will position the institutional finance as a proactive instrument for developing the MSME industry and acting before the failure occurs rather than the response measure after the business fails.

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