

FORMALITY OF FINANCIAL SOURCES AND FIRM GROWTH: EMPIRICAL EVIDENCE FROM BRAZILIAN SMES 1999-2005

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Abstract

This article investigates the impact of financial sources on firm growth in Brazil. In particular underlying objectives of this paper is to answer the questions, does external or internal and formal or informal financial sources affects differently on firm performance?, and does financial institutional development support firm performance? Empirical results reveal that internal finance maintains positive relation with firm growth. Growth positively relates to the formal financial institutions while it is found insignificant to informal institutions. Furthermore, analysis strengthens the view that developed financial system is a very imperative factor for firm's growth in less developed countries.

Keywords: Formal finance, Informal finance, Firm growth, Financial reforms.