

A Qualitative study on Access to finance challenges faced by MSMEs Entrepreneurs

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Abstract

Purpose- The MSMEs (Micro Small and Medium Enterprises) counter numerous financial obstacles concerning access to financing. The study therefore intends to examine the difficulties of access to finance by the MSMEs.

Design/methodology/approach- Employing the qualitative approach, a total of 25 in-depth interviews with MSMEs entrepreneur were carried out. Data were analyzed using NVivo 14 and JMP software.

Findings- The analysis extracted 7 unique themes, namely delay sanctioning loan, collateral requirement, Limited credit history, high interest rates, stringent documentation requirements, Limited financial literacy, working capital. The results claimed that these themes can assist in access to finance to MSMEs entrepreneurs. However, access to finance often leads to improving firm performance.

Originality- The paper is original and brings out some valuable findings that will assist the policymakers in India should finding ways to minimize financial barriers, so MSMEs can access finance easily, regardless of their attributes and life cycle stage to bridge the credit gap.

Keywords: MSMEs; Financial obstacles; Access to financing; Firm performance; credit gap

INTRODUCTION

The Micro, Small and Medium Enterprises (MSME) sector has developed into a very dynamic and lively component of the Indian economy during the past fifty years. It plays a crucial role in the economy and social development of the country by promoting entrepreneurship and creating substantial employment opportunities at relatively low capital costs, second only to agriculture (MSME Annual report, 2023). Micro, Small, and Medium Enterprises (MSMEs) serve as supplementary units to large businesses and greatly contribute to the inclusive industrial growth of the nation. The MSMEs are broadening their scope across several areas of the economy, generating diversity. Despite their contributions, around 55 to 68 percent of enterprises continue to encounter difficulties in obtaining financing from formal sources (Uddin et al., 2022). The lack of financial resources for small enterprises constitutes a significant issue, with an annual funding gap of \$2.1 to \$2.6 trillion in emerging markets (Alibhai, Bell & Conner, 2017). The deficiency of financial resources adversely affects the growth and development of MSMEs and may also obstruct their establishment. (Berisha et al., 2024). Most MSMEs stated access to finance is the major challenge while the least number of MSMEs mention Limited capital (Kicono Josephine., 2024). Access to credit remains a major concern for MSME, primarily due to factor such as high interest rate and strict lending standards by banks (Maiti, 2018). In the light of this there is need to analyze the challenges encountered by the MSMEs in accessing finance.

REVIEW OF LITERATURE

According to Ayyagari et al (2007) A favourable business environment, defined by better access to finance, regulatory assistance and infrastructure significantly enhance the growth and sustainability of SMEs. Maiti (2018) highlights that access to credit remains a major concern for MSME, primarily due to factor such as high interest rate and strict lending standards by banks. Godke Veiga & McCahery, (2019) analyse the differences in SME landing across various Bank ownership type and market mechanism affect the financing availability. The factors significantly impact on credit access to MSMEs, revealing that firm with lower working capital and asset formation are more likely to be credit constraints (Athaide & Pradhan,

2020). Lin et al (2022) investigates the root cause of financing gap, argues that the adoption of a comparative – advantage - defying strategy by governments is a contributor significantly to this issue. The MSMEs face severe financial obstacles such as high landing costs, stringent collateral requirement and complex application process, which hinder their ability to get credit (Rajamani et al., 2022).

Financial challenges faced by the enterprises based on the In depth interview

The present study explore the inductive process to identify key challenges associated with MSME sectors in assessing finance. These approach involve collecting qualitative insights from MSMEs owners through in depth telephonic interview and observations, facilitating a comprehensive understanding for their financial constraints, procedural challenges, and external barriers.

The study collected data solely from 25 MSMEs entrepreneurs who actively engaged in running their businesses in Raipur district. A semi structured questionnaire was used to collect data, facilitating a mix between organised responses and open ended discussions. The interviewees were selected based on their willingness to participate and their availability, ensuring that only those genuinely interested in sharing their experiences were included. Each interview session averaged 20 to 30 minutes, providing sufficient time for comprehensive discussion while ensuring that the participant to adequately balance their business obligation with their interview process. Before conducting the final analysis, all responses gather from the 25 MSMEs entrepreneurs were carefully transcribed into a word document. Once transcribed, the data was carefully examined for grammatical errors, typographical mistake or missing statements to maintain the accuracy and integrity of the information.

The qualitative results from in-depth interviews provide significant insights into the obstacles MSMEs encounter in accessing finance, ensuring that the statistical analysis in practical realities. By integrating both qualitative and quantitative approaches, the study intended to provide a comprehensive evaluation of the financial accessibility challenges encountered by MSME.

Word frequency analysis

A word “frequency analysis” was conducted independently for responses obtained from telecom using JMP software. Word frequency analysis revels that most used word in the sample database, hence enhancing comprehension of the characteristics of the research responses collected (Ghiassi et al., 2013; Centobelli et al., 2020a, b).

The result of word frequency analysis for MSMEs entrepreneur are given in table 4.14 of which gives the count of the words used most prominently by MSME owners. While conducting interview with MSME owners the word such as MSME, problem, bank, loan, finance, collateral, documentation, capital, performance, asset, creditscore were frequently used.

Table 1. Word Frequency of the Respondent

| Word | Length | Count | Similar Words |
|---------------|--------|-------|-------------------------------|
| MSME | 4 | 156 | MSMES, SMEs |
| Problem | 6 | 135 | Problem, problems |
| Bank | 4 | 122 | Banks, Banking |
| Loan | 4 | 112 | Loan, Loans |
| Finance | 7 | 96 | Finance, Financing |
| Collateral | 10 | 94 | Collateral, Collaterals |
| Documentation | 13 | 93 | Documentations, Documents |
| Capital | 7 | 91 | Capital, Capitals |
| Performance | 11 | 86 | Performance, Performing |
| Asset | 5 | 72 | Asset, Assets |
| Creditscore | 16 | 45 | Creditscore, Creditworthiness |

After the analysis of word count through word frequency, the interview led to key insights from the discussion held with the MSME owner. We have segmented the major input given by the MSME owners based on the challenges they faced for access to finance.

Table 2. Key Financial Challenges Insights from MSME Entrepreneurs

| Code No. | Type of MSMEs | Insights |
|----------|---------------|---|
| M1 | Micro | 1) Micro firms perceive that banks Favor large enterprises in the allocation of loans. 2) Elevated interest rates render formal lending prohibitively expensive for the majority of micro business proprietors. 3) Collateral prerequisites serve as a significant obstacle for tiny enterprises devoid of fixed assets. 4) Prolonged and intricate documentation deters tiny firms from seeking bank loans. 5) Insufficient working cash constrains daily operations and hinders growth prospects. |
| M2 | Small | 1) Small firms encounter delays in loan approval owing to stringent and redundant documentation demands. 2) Elevated interest rates diminish profitability and deter long-term borrowing. 3) Collateral requirements continue to pose a significant challenge, particularly for asset-light enterprises. 4) Inadequate working capital impairs inventory management and the capacity to execute substantial orders. |
| M3 | Medium | 1) Medium firms experience delays in loan disbursement despite possessing enough documentation and financial records. 2) The need for credit has increased; nevertheless, obtaining substantial loans frequently entails intricate approval processes and regulatory oversight. |

Key Insights from the respondents

The result of the in-depth interview further led to the development of seven themes. As per the discussions with the MSMEs entrepreneurs, the chronological order of the themes was developed. It directs the challenges facing by the MSMEs owners in accessing finance. As per the first theme of the study delay in sanctioning the loan states that complex documentation, administrative requirements, verification process, and bureaucratic delay frequently slowdown the loan approval, can create significant challenges for MSMEs in access to finance. Collateral requirement, the second themes of the study, bank often need tangible assets, however, many MSME do not have sufficient assets to pledge as security, limiting their capacity to obtain loans. The next theme, related to limited Credit history An MSME's creditworthiness has a significant impact on interest rates and loan approval processes. Many small enterprises operate informally or without a well-documented financial history, making it difficult for banks to assess their repayment potential. As a result, MSMEs with limited or no credit history may face higher interest rates, rigorous lending restrictions, or outright rejection of loan applications, limiting their financial growth. The Fourth theme related to High Interest rates Banks and financial organizations base their interest rates on market changes, risk assessments, and economic factors. MSMEs, particularly those deemed high-risk borrowers due to low credit history or insufficient collateral, may experience higher borrowing prices. Increased interest rates raise the cost of capital, lowering the profitability and viability of small businesses that rely on external funding to manage cash flow and investment requirements.

The Stringent documentation requirements, fifth theme of the study extensive documentation process, which includes the production of financial statements, business plans, tax returns, and legal documents, can be a barrier to financing for MSMEs. Many small firms fail to meet these requirements because they lack basic bookkeeping and expert financial management. As a result, they may encounter loan denials

or delays, limiting their ability to satisfy operating and expansion requirements. The next theme includes Limited Financial Literacy, Many MSMEs struggle to obtain finance due to a lack of knowledge about various loan schemes, government financial assistance programs, and formal bank procedures. Business owners may not fully comprehend the eligibility requirements, loan terms, or repayment obligations, resulting in missed opportunities for financial assistance. Financial literacy training for MSME owners can considerably increase their ability to obtain and manage finances successfully. The last theme of the study working capital, MSMEs require adequate working capital to fulfil their daily operational expenses, which include salary, rent, and raw material procurement. Limited working capital can result in cash flow issues, hurting both production and service delivery. Without adequate finances to cover short-term needs, MSMEs may struggle to maintain business continuity, resulting in late payments, supply chain interruptions, and restricted growth.

Table 3. Key Insights from the respondents

| S.no. | Code No. | Themes | Codes |
|-------|----------|--------------------------------------|--|
| 1 | P1 | Delay in sanctioning loan. | Complex documentation and administrative stipulations can establish obstacles to financial access. |
| 2 | P2 | Collateral requirement. | Banks frequently need collateral in the form of tangible assets. |
| 3 | P3 | Limited Credit History | The borrower's creditworthiness substantially affects the interest rate. |
| 4 | P4 | High-Interest Rates | Banks establish interest rates according to the variation in interest rates. |
| 5 | P5 | Stringent Documentation Requirements | Complex documentation and administrative procedures can create impediments to financing |
| 6 | P6 | Limited Financial Literacy | MSMEs struggle to obtain financing because they are unaware of existing lending schemes and financial support initiatives. |
| 7 | P7 | Working Capital | Adequate working capital is required to pay daily operating costs. |

RESULT AND DISCUSSION

The purpose of this study was to better understand the financial issues faced by MSMEs owners, and the findings clearly indicates that entrepreneurs suffer a number of financial barriers. The word count analysis revealed that critical concerns such as "problems," "finance," and "performance" regularly arose, indicating that many businesses are stressed about obtaining financing. Through in-depth interviews, the study identified seven distinct themes that shed light on the specific financial challenges confronting by that MSMEs owners. These findings underscore the critical need for focused initiatives to promote the growth of MSMEs. As a result, the study suggests improving existing loan guarantee programs and exploring into other funding sources to close the financial gap and promote the MSME sector's long-term growth and expansion.

CONCLUSION

The study indicates that MSME entrepreneurs faces many challenges namely delay sanctioning loan, collateral requirement, Limited credit history, high interest rates, stringent documentation requirements, Limited financial literacy, working capital in obtaining financing, which substantially impede their growth and sustainability. Consequently, the policymakers in India should find ways to minimize financial barriers, so MSMEs can access finance easily, regardless of their attributes and life cycle stage to bridge the credit gap. To improve MSMEs' access to financing, the government should enact supporting laws, expand credit guarantee schemes, and increase financial awareness among entrepreneurs. Simplifying loan applications, lowering collateral requirements, and providing low-interest financing choices can encourage more MSMEs to seek formal financial assistance. Expanding credit-linked subsidy programs

and ensuring successful implementation of government-backed funding initiatives such as MUDRA loans and CGTMSE can help to increase financial accessibility. Furthermore, promoting digital lending platforms, encouraging alternative financing models such as venture capital and peer-to-peer lending, and improving loan disbursement transparency will help to create a more inclusive financial ecosystem for MSMEs, resulting in increased growth and economic contribution.

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