ANALYSIS OF FACTORS AFFECTING THE ACCESSIBILITY OF FINANCE TO SMES: EVIDENCE FROM INDIA

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Abstract

The research "ANALYSIS OF FACTORS AFFECTING THE ACCESSIBILITY OF FINANCE TO SMES: EVIDENCE FROM INDIA" has aimed to analyze the problem that hinder Indian Small and Medium Enterprises in obtaining funding from the monetary bases. To achieve the objectives, information was collected from a sample of 86 SMEs to analyze the issues. The information was collected by meeting the interviewees directly with the aid of a self-directed survey. The help information is also used for this purpose. The results found that the size and age of organizations, management and capabilities of owners, and negative terms of admission, for example, untargeted loan fees, lack of security assurance, bribery by banking authorities, and so on. away they could be. It is the biggest barrier to entry for SMEs. India has a face in obtaining credit from monetary institutions. The limit is that the magazine kept in mind a city as an example of its population. Better outcomes for this sort of study could be encouraged by a global study including a sizable number of SMEs. As a result, smaller businesses—rather than bigger ones—face subsidy obstacles and are cut off from the financial foundations for extending loans. Based on momentum writings and a study on SMEs, especially in terms of resilience, this study collects data linking to the problems identified by SMEs in approaching money and recommending the resources available to ensure SMEs access to finance for their development and development.

Keywords: Small and Medium Size Enterprises, Accessibility of finance, Indian Start-up

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Introduction

SMEs are very much involved in the development of money in India which has a huge potential for the development of this sector, which has not yet had an opportunity to realize its true potential. Poor eligibility for funding has been one of the obstacles for SMEs to realize their true potential (Nkwabi & Mboya, 2019). Although there are several SME trials in India, there aren't enough research that focus especially on understanding the obstacles that SMEs experience when trying to acquire financing. The current research aims to close this gap (Nkwabi & Mboya, 2019).

SMEs usually have for over half of all jobs in the world and 90% of all transactions. In emerging economies, the contribution of formal SMEs to GDP could reach 40%. Each time small SMEs are considered, their number increases (World Bank, 2022). SMEs rely on their own funds or the capital of family members and loved ones to start and deal with their organizations earlier because they are more willing to have the ability to obtain credit bureaus than large organizations. The largest share of the global monetary hole (46%) is represented by East Asia and the Pacific, followed by Latin America and the Caribbean (23%) and Eastern Europe (15%) (World Bank, 2022).

Literature Review

The main barrier to securing financing is capital investment, according to Chowdhury & Alam's 2017 detailed explanation. Many SME owners struggle to get bank financing when they apply for it as a consequence of this problem. This indicates that SMEs only meet roughly 10% of their demands and have extremely limited access to bank funding. According to various studies (such as Chowdhury et al. 2015), SMEs in Bangladesh suffer entrance obstacles because of lengthy and complicated credit approval processes, increased loan fees, a lack of access to reliable data and expert guidance from organisations, and other factors. Several different tests (Aldaba, 2012) explained that higher exchange costs, higher borrowing costs, unfortunate strategy, lack of ability to pay back creditback most Bangladeshi SMEs have come in for support.

The exact results of past studies indicate that some SMEs show certain attributes, making them more likely to neglect to get the financing they need. For example, some past experiments suggest that it may be difficult for some organizations to access corporate finance, basically because of their characteristics such as age, size and region (Do et al 2019), initial characteristics such as training and past experience or due to monetary characteristics such as having a strategy with field testing, length of credit, history, business structure, higher exchange cost, unfocused lending (Abbasi, Wang & Abbasi, 2017).

One of the elements that the lenders of commercial banks or funds bases consider while continuing to provide loans to SMEs include the connection between the senior management and the cultural history of the reimbursements to the bank or other banking institutions, together with health care coverage and the goal of the Small as well as Medium-sized Businesses to repay the advance.

Research Objectives

- To look into the factors that affect how easily SMEs may acquire financing.
- To investigate the financial factors that influence SMEs' access to finance.
- To determine and evaluate the entrepreneurial traits that affect SMEs' access to financing.

Research Methods

Sample Collection

In order to accomplish the study's goals, 86 Indian SMEs were chosen as the sample. The study was carried out by sending links to online questionnaires to business owners. Given that it is easier to reach SMEs internet than it is to personally visit every respondent, the official website was selected for the survey collection. Convenience sampling has been employed to get the data since there are too many SMEs in the research area to be able to include them all in a short period of time.

Data Analysis

Frequency-based analysis was used to examine the data. In the vast majority of the cases, this study employed straightforward statistical techniques, such as percent and charts, to confirm the accuracy of the analysis. The secondary data were gathered from a variety of sources, including textbooks, journals, government documents, analytics handbooks, as well as other literature.

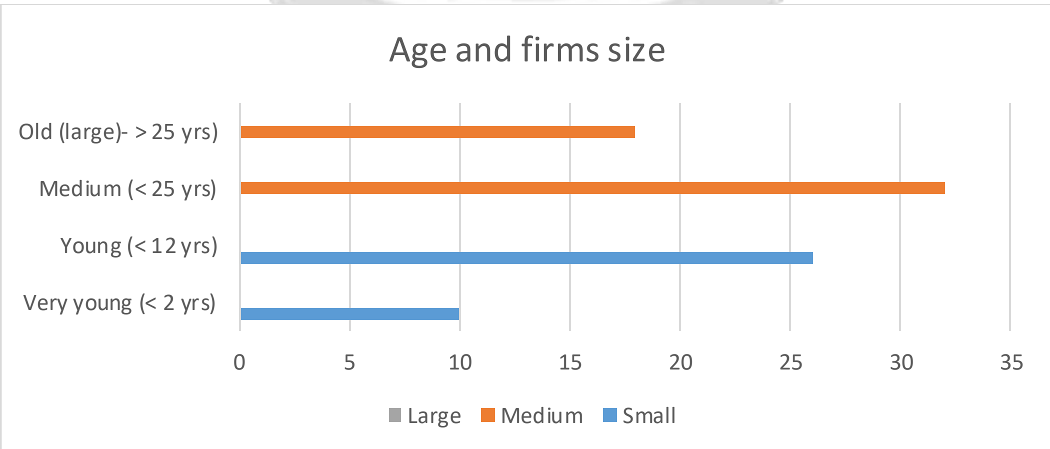
Findings and Analysis

The raw data obtained for the study endeavor is analyzed and explained in this part. These evaluations and explanations are related to the precise goals that directed the researchers' work all across the study as well as the questionnaire's questions.

Firms' Characteristics

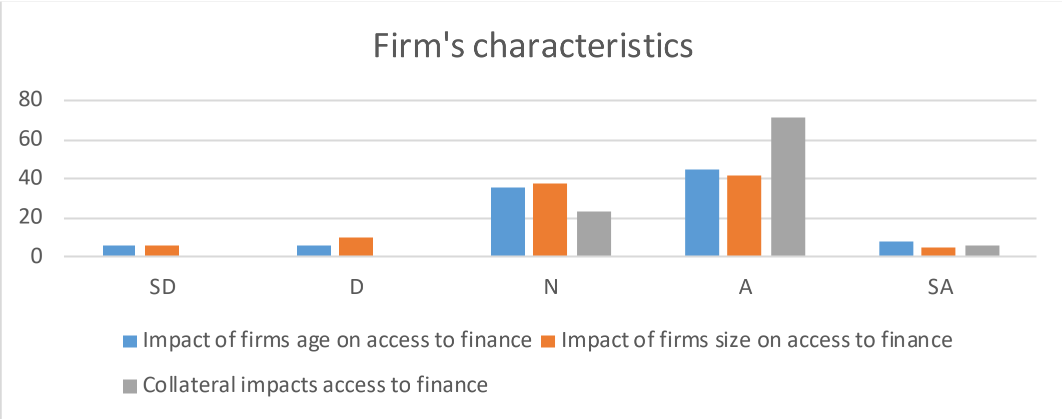
Three factors were considered in this section: the business's size, number of years it has been in existence, and its capacity to create collateral. The answers to the questions were used to compile data on the associations between the enterprises' sizes and ages, as well as their capacity for producing security and their access to financing.

Chart 1: Analysis of age and size of the respondent firms



Small businesses made up 42% of the total 86 SMEs. 30 percent of them were young, and 12 percent were really young. There were 38% medium-sized businesses. The remaining 20 percent was made up of big corporations. SMEs under two years old were regarded as extremely young, and those under twelve years old as young. Old (big) businesses were those over 25 years old, whereas medium businesses were those under 25 years old.

Chart 2: Firm's characteristics displaying the responses



**SD ➔ Strongly Disagree; D ➔ Disagree; N ➔ Neutral; A ➔ Agree; SA ➔ Strongly Agree*

Only 6 percent strongly disagreed, 6 percent highly agreed, and 8 percent extremely agreed with the statement about the impact of age, the firm, and accessibility to funds. 37 percent of respondents remained indifferent while the majority agreed with the assertion regarding the size of the companies and its impact on obtaining financing. This implies that SMEs' longer history of operations, size, and use of collateral all have a big impact on the funding options available to them.

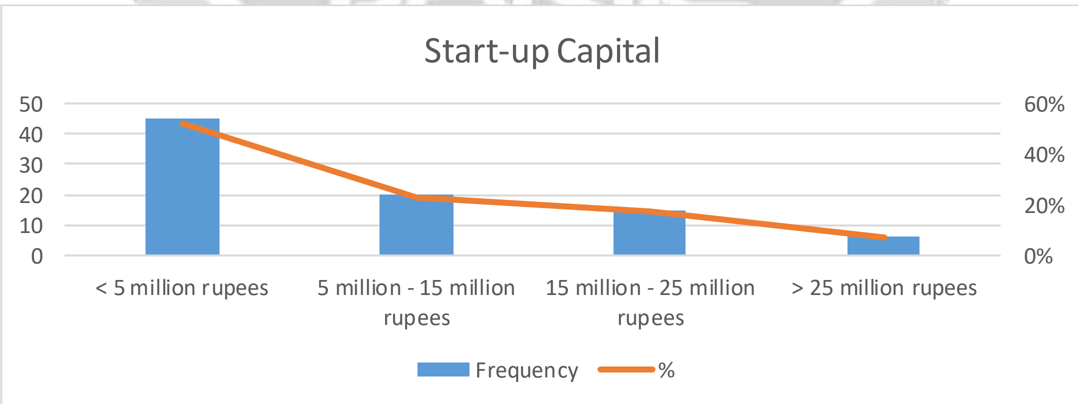
<u>Characteristics of financial:</u>

The initial capital, actual capital situation, interest payment, strategy of the business and other factors have been utilised to determine the financial features of SMEs' finance.

In terms of start-up capital, 52% of respondents said they had less than 5 million rupees, 23% said they had between 5 and 15 million rupees, 17% said they had between 15 and 20 million rupees, and 7% said they had more than 25 million rupees. This demonstrates that small enterprises may be founded with a little level of funding at the outset, even if they require funding for fulfilling the requirement of working capital throughout activities and future expansion of the business.

Chart 3: Start-up capital of SMEs

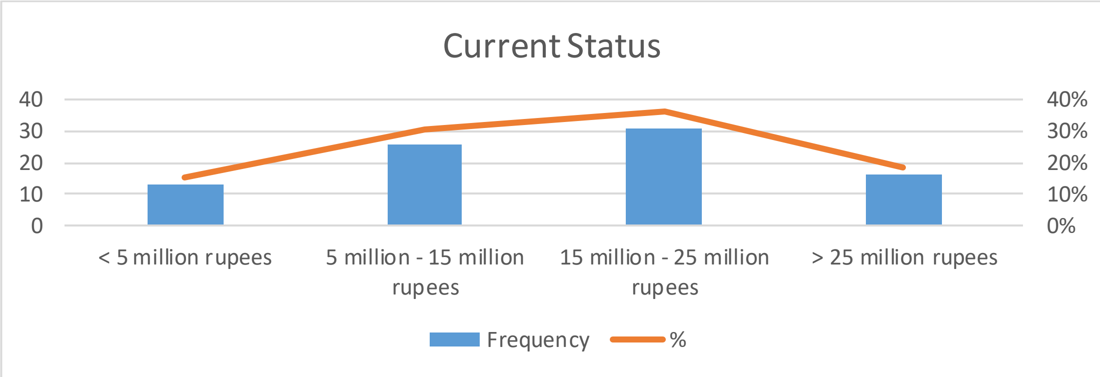
"How much money did you put in the firm when you first opened it?"



According to Chart 4, which shows the present situation of SMEs' capital, the percentage of SMEs operating their businesses with much less than 5 million rupees were between 5 million and 15 million rupees of capital has dropped from 52 percent to 15%. (Chart 3). Chart 4 shows that the percentage of SMEs with capital among 5 and 15 million rupees risen from 23 to 30 percent, while the percentage of SMEs with equity between 15 and 25 million rupees more than 25 million rupees continued to increase from 18 to 36 percent, and the percentage of SMEs using over 25 million rupees continued to increase from 7 to 19 percent, respectively (Chart 3).

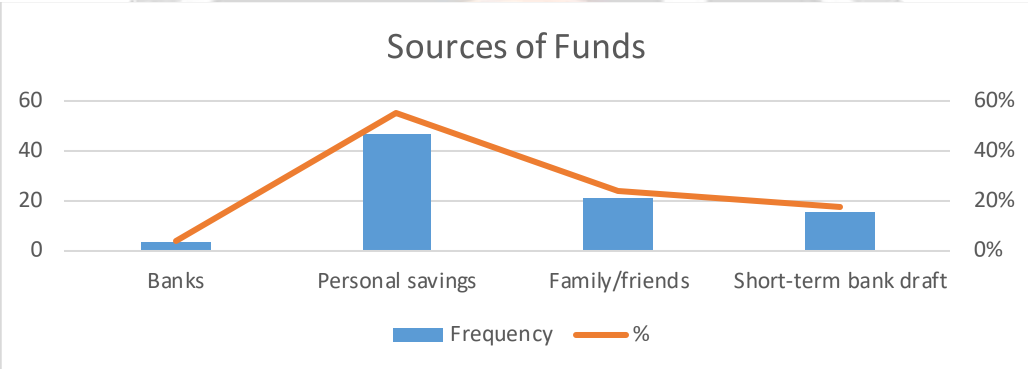
Chart 4: Data on current status of capital

"What is the present capital growth situation of your company?"



The information in Chart 4 depicts the total growth of capital. The conclusion is that total capital growth helps firms to increase efficiency of working capital so they may use in order to invest in long-term purchases of new and upgraded technology as well as investing activities. When asked where they got their start-up money from, 55 percent said they got it from savings and investments, 24 percent from friends and family, 17 percent from short-term bank draughts, and just 4 percent got it from banks (Chart 5).

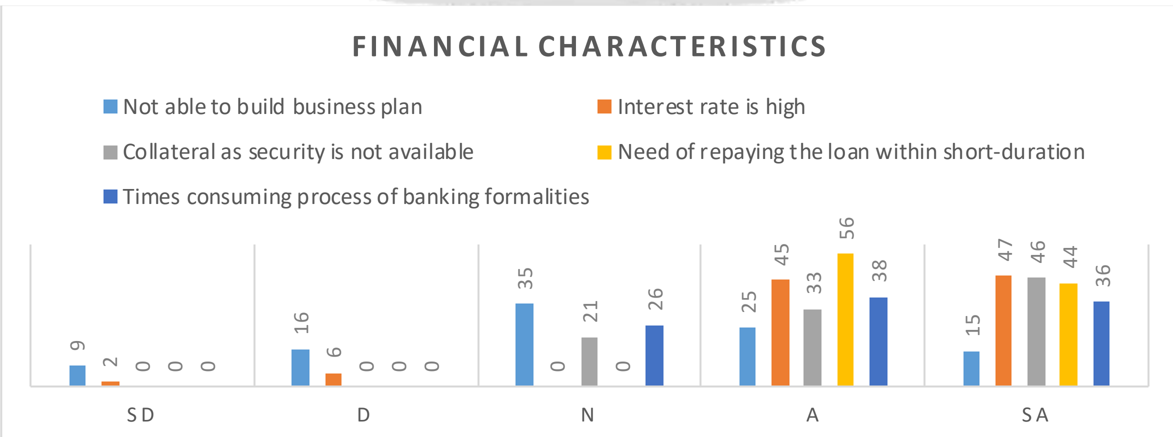
Chart 5: Status of major sources of initial fund accessibility



Only 4% of people borrowed money from banks, according to the information in Chart 8. As asked why they didn't borrow from banks, the majority of those polled (small enterprises) stated that shorter payback terms and the prerequisites (such as a business plan, collateralized assets, and a three-year statement of financial report) were the biggest deterrents. Chart 5 shows that 17 percent of those who took out short-term loans were often medium-sized businesses.

A four-item survey (Chart 6) with the assertion has been obtained in order to further analyse the factors preventing SMEs from acquiring funding.

Chart 6: Financial characteristics of respondents (in percentage)

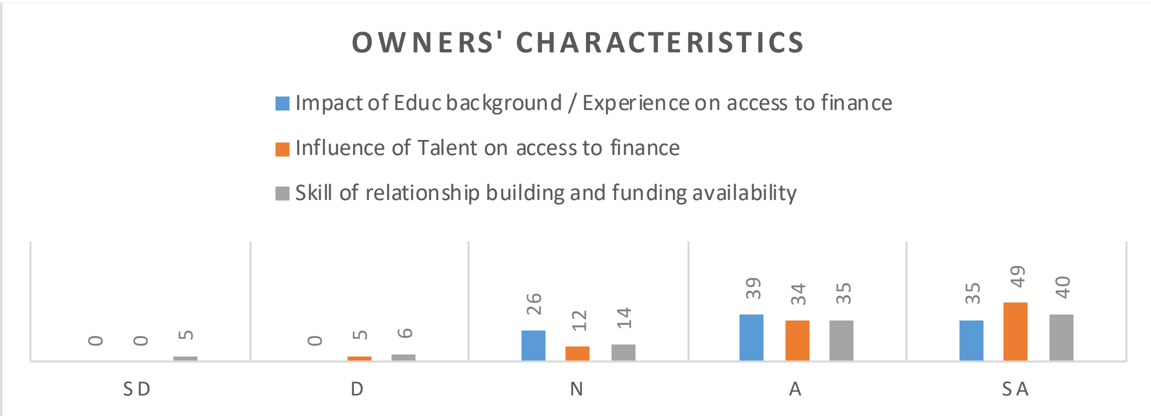


The information in Chart 6 demonstrates that the large number of participants have either strongly agreed or agreed on each and every question assertion. Concerning the capability issue regarding security, short for loan payback, and cumbersome financial process, neither disagree strongly neither disagree received any responses. They said that unscrupulous lenders are accepting fake documents, disregarding all the restrictions pertaining to each single statement, and channelling loans worth billions of rupees to businesspeople supported by the nation's democratic masters, boosting the cost of funding.

Owners' Characteristics

Finally, the qualities of the proprietors make it difficult to create access to funding. The factors we considered in achieving this goal were management aptitude, relationship-building with banks, and previous experience.

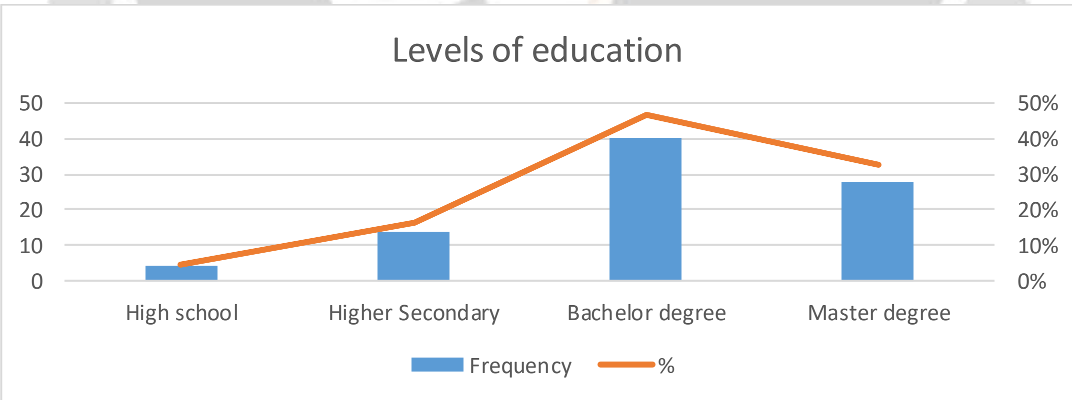
Chart 7: Owners' characteristics (in percent)



Educational Status of owners/managers:

Four categories of educational attainment for shareholders / operators have been established: high school, postsecondary education, a post graduate diploma, and a master's degree (Chart 8).

Chart 8: Levels of education of SMEs owner/manager



Regarding educational attainment, 33% had a master's degree while 46% had a bachelor's. 95% of students who were questioned about their field of study indicated that it was business or a field closely connected to business. This indicates that the population consisted of knowledgeable and skilled owner/managers. The majority of respondents (74%) believed that education and expertise were crucial for both getting financing and managing the borrowed money. The general rule is that banking firms will never lend money to a business entity that isn't doing a good job of using the external financing for profitable endeavours.

Relationship with Banks:

Three-fourths of participants (40 percent strongly agreed, 35 percent agreed) agreed with the statement that developing relationships with lenders has an impact on access to cash (Chart 7). It is stated that a company owner would view the connection with the lenders to be essential to his or her business development when the connection is successful and trust and integrity prevail.

Finally, participants were asked questions about their experience with loan rejection in relation to access to money (Chart 9).

Chart 9: Loan rejected by Banking institutions

"*Have you ever had a loan application denied by a banking institution?*"

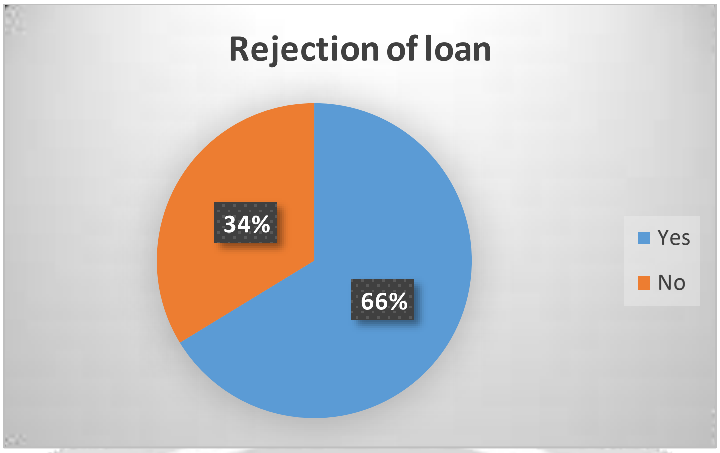


Chart 9 in the previous table shows that 66% of participants said that their loan request had been denied by official financial institutions like banks. 34 percent claimed to have received a loan. Numerous reasons for denial were given, including the dearth of assets that may be pledged as collateral, the perception that these MSEs pose a significant risk, the inability to implement a business model, and the loan's short payback term.

Conclusion

One of the main factors preventing SMEs from getting credit from money foundations is a direct result of not being able to create fixed asset insurance for banks. This means that the loan from banks and other monetary and non-monetary institutions is an insured loan. The review could be adopted in the future to track the available resources (for example, using income) that allow SMEs to return from formal organizations such as banks without arranging co - lateral so that SMEs can expand. The public authority needs to create formal cash base packages that can provide large amounts of credit to uninsured MSEs, assuming that the SME incentive is considered behind the expected down payment to achieve.

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