

Understanding Factors Affecting MSMEs' Access to Finance: A Study Based on Intertemporal Analysis of Firms in India

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Abstract

Micro, Small and Medium Enterprises (MSMEs) play a very strategic role in the growth of both developed and developing economy. It not only provides employment opportunities to new entrepreneurs (start-ups) and low skilled workers but also absorbs labour force from agriculture sector. It has major contribution in technical innovation and new product developments. In comparison to large enterprises, MSMEs adopt more labour intensive production process. Further, by employing low skilled workers and using local raw materials as inputs, MSMEs can be instrument for inclusive growth and reduction in poverty. Therefore, MSMEs can play role in achieving Sustainable Development Goals (SDGs) by 2030.

In India, MSME sector contributes significantly in terms of gross value added (around 29 percent), export (around 45 percent) and employment generation (around 110 million). Despite its importance to the economy, this sector faces many challenges for its survival, growth and transformation from MSMEs to large firms. Access to finance is one of the major hurdles in their growth. Constraint to access to finance has potential to negatively affect the investment decision of firms and thus limits their growth in this era of huge competition arising due to globalization. Further, though there are many government policies and schemes to facilitate MSMEs' access to finance, their condition has not improved over time.

The present endeavor aims to understand the factors affecting access to finance for MSMEs in India. The study uses two rounds of NSSO surveys – 67th (2010-11) and 73rd (2015-16) rounds surveys of Unincorporated Non-agricultural Enterprises to assess the dynamics of factors affecting access to finance for MSMEs. Probit model has been used for the analysis. The findings indicate that number of firms facing access to finance problems has increased both in absolute and percentage terms. The MSMEs' access to finance is affected by many factors including performance of firms, age of the firm, gender of the owner, caste of the owner, informality, type of industry, and location of the firm. The prevalence of credit problems in MSMEs has negative correlation with SDGs. Given the findings, it can be suggested that the government should make a customized policies to support MSMEs based on above factors. It may enhance the effectiveness of the government schemes in terms of enhancing MSMEs' access to finance.

Keywords: India, MSMEs, SDGs, Access to Finance, Probit Model

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