Evaluating The Role Of Policy Interventions In Enhancing Msme Access To Bank Financing

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Abstract

The paper explores the critical role that policy interventions have in improving and facilitating Micro, Small, and Medium-Sized Enterprises' (MSMEs') access to bank finance. MSMEs are vital to the global economy since they generate a large number of jobs, boost GDP, and encourage innovation. Nonetheless, emerging businesses frequently face difficulties securing sufficient funding, especially from conventional banking institutions. Their growth and potential are severely limited by the inadequate availability of credit. In this study, we examine how company and entrepreneurial characteristics affect the use of debt (bank loans) for investment financing by small and medium-sized firms (SME's). Data was acquired through interviews conducted with 200 SME's in India using a self-organized questionnaire. Using the linear regression econometric model as a foundation, Important variables that affect the growth of debt-financed investments are highlighted. The findings show that there is a relationship between the company's age, size, business plan, industry, number of owners, and funding sources and the expansion of investments funded by India 's banks. Consequently, research findings indicate that the One of the key factors influencing the investment is

having access to bank loans or other external funding sources.

Keywords: Policy Interventions, Enhancing, MSME, Bank Financing.

1. INTRODUCTION

The foundation of many economies, micro, small, and medium-sized enterprises (MSMEs) play a major role in creating jobs, stimulating the economy, and encouraging innovation. Unfortunately, these businesses frequently struggle to obtain sufficient funding, which limits their ability to expand. For MSMEs, getting bank funding is still a major barrier that limits their ability to grow, invest, and innovate. These enterprises' growth trajectory is severely hampered by their inability to receive finance from traditional banking institutions because to their strict standards, perceived risks, and lack of collateral.

Governments and banking regulatory agencies have realized in recent years how important MSMEs are and how urgent it is to solve their funding issues. Consequently, policy measures have been put in place to increase MSMEs' access to bank financing. These policy initiatives cover a broad range of tactics, such as the creation of specialized financial institutions, tax incentives, regulatory reforms, credit guarantee programmers, and capacity-building initiatives. This article aims to investigate and evaluate the different policy interventions intended to improve MSME access to bank finance. Its objective is to assess how well these measures have worked to reduce obstacles and increase MSMEs' access to financing. This study will investigate successful cases where policy changes have favorably influenced MSMEs' access to finance, facilitating their growth and sustainability, by evaluating empirical evidence and case studies. This article will also examine the difficulties and restrictions related to various policy interventions. It will draw attention to the necessity of an all-encompassing strategy that incorporates technological advancements, financial literacy initiatives, and legislative adjustments to foster an atmosphere that facilitates MSMEs' access to

financial resources. In the end, the goal of this analysis of policy interventions to improve MSME access to bank financing is to highlight the critical role that these interventions play in supporting the expansion and advancement of MSMEs. It attempts to shed light on how small and medium-sized businesses (MSMEs) are incorporating finance into their operations. It emphasizes the significance of creative and flexible regulatory frameworks in order to address the ever-changing obstacles that MSMEs must overcome in order to obtain bank funding.

1.1 MSMEs: The Drivers of Economic Development

- Micro, Small, and Medium-Sized Enterprises (MSMEs) are essential to economic growth and development because of the vast array of areas in which they contribute dramatically. This is a thorough analysis of their significance:
- Employment Creation: MSMEs play a critical role in generating employment, particularly in emerging nations. Compared to larger businesses, they frequently require more labour, which greatly increases employment overall. A significant percentage of the workforce is employed in this industry, which lowers unemployment rates and promotes social stability.
- Contribution to GDP: MSMEs as a group significantly increase the Gross Domestic Product (GDP) of numerous nations. Their combined sales, added value, and output are important factors in the economy's overall performance and support its health and sustainability.
- Entrepreneurship and innovation: MSMEs frequently lead the way in innovation. Their flexibility and comparatively smaller size enable them to respond to shifting market demands more quickly. By launching novel goods, services, and procedures, they promote innovation and boost competitiveness and economic dynamism. These businesses frequently provide as a fertile foundation for innovative ideas and gifted entrepreneurs.
- Competition and diversity: MSMEs foster economic diversity by providing a broad range of goods and services. Their existence in a number of industries

fosters rivalry, which raises standards of quality and efficiency. This encourages a competitive market environment that benefits larger businesses and consumers alike, hence promoting economic growth in general.

- MSMEs play a critical role in promoting regional development. Often located outside of large cities, they support the economic development of rural and impoverished areas. Their growth and presence in these areas result in improved living conditions, lessening of regional economic disparities, and the development of infrastructure.

1.2 Difficulties in Obtaining Bank Financing:

Micro, Small, and Medium-Sized Enterprises (MSMEs) frequently face considerable obstacles when trying to obtain bank financing, which limits their ability to develop, expand, and innovate. These difficulties result from multiple factors:

- Tight Collateral Requirements: When granting loans, traditional banking institutions usually require a significant amount of collateral. MSMEs frequently lack substantial assets to offer as collateral, particularly startups and small firms. This strict prerequisite becomes a significant barrier, preventing them from obtaining financing.
- High Perceived Risks: Compared to more established, larger companies, MSMEs are thought to be riskier to lend to by financial institutions because of things like a shorter track record of operation, erratic cash flows, and a higher chance of failure. As a result, banks might be reluctant to lend money to these businesses, which would put MSMEs in a credit constraint.
- Restricted Credit History: MSMEs frequently have little to no credit history, especially if they are brand-new companies or tiny enterprises. In the absence of a well-established history of loan borrowing and repayment, financial institutions find it difficult to evaluate their creditworthiness. Access to finance is further hampered by this lack of credit history.

The following obstacles may have a significant effect on MSMEs:

- Slowed Growth: MSMEs' potential for growth is hampered by a lack of bank finance. They might not have the money to expand, buy the tools they need, or recruit more employees, which would limit their ability to grow.
- Limited Research and Development and Innovation: Research and development as well as innovation are hampered by a lack of financing. MSMEs may find it difficult to make investments in new products, processes, or technology, which would reduce their ability to compete in the market.
- Decreased Competitiveness: MSMEs may find it difficult to successfully compete with larger businesses if they do not have access to sufficient funding. This constraint hinders their capacity to grasp market prospects, increase their market share, or broaden their range of products.

2. REVIEW OF LITREATURE

A conceptual framework that provides a comprehensive knowledge of SME finance is presented by Berger and Udell (2006). They highlight the particular difficulties faced by SMEs and the drawbacks of using conventional financial models created for big businesses. The significance of government policies, information asymmetry, and relationship-based lending in influencing SME financing is emphasized in the article. It also presents the idea of "soft information" and highlights the importance of non-quantitative aspects when deciding how to finance SMEs. The financial and legal barriers to SME expansion are examined by Beck, Demirgüç-Kunt, and Maksimovic (2005), who also examine whether these barriers are influenced by the size of the firm. The study finds that problems with external financing, knowledge, and collateral pose greater growth limits for smaller businesses. The authors underscore the relevance of institutional contexts in promoting SME development and stress that legal and regulatory variables also have a substantial impact on SME growth prospects.

The World Bank's (2017) research offers a thorough examination of the financing alternatives and difficulties that SMEs encounter worldwide. In addition to highlighting the necessity of specialized financial solutions to meet their particular needs, it underscores the crucial role that SMEs play in economic development and employment creation. The report addresses issues like financial institutions' roles, SME financing, and the effect of laws and policies.

In its study "Financing SMEs and Entrepreneurs 2019," the OECD provides a thorough summary of SME finance in all of its member nations. It provides information and analysis on venture capital, the impact of legislative changes on SMEs, and financial access. The study evaluates different financial tools and how well they support SMEs, offering stakeholders and policymakers insightful information. Halkos and Salamouris (2004) use data envelopment analysis to investigate the effectiveness of Greek commercial banks. This study is pertinent even if it is not specifically focused on SMEs because financial institutions' capacity to finance SMEs is influenced by their efficiency. The study emphasizes how critical it is to evaluate how well banks and other financial intermediaries assist SMEs. Ayyagari, Demirgüç-Kunt, and Maksimovic (2011) look into how employment, job creation, and economic growth are affected by small and startup businesses. Instead, then focusing on the financial institutions themselves, this study looks at the traits of businesses. It emphasizes how crucial it is to comprehend firm dynamics in the context of SME financing and economic development because startups and small businesses frequently encounter particular difficulties and opportunities.

3. METHODOLOGY

3.1 Sources of Data

The questionnaire was designed to collect data between March and July of 2012, and data processing based on the responses was carried out in November and December of the same year. This time, a database was created that contains details about SME characteristics generally and

features specific to investments and financing in particular. The STATA programmer was used to process the data.

The questionnaire, which covers the years 2018 and 2020, was especially created for this scientific study involving 200 SME's in India. The sample is chosen at random from a database maintained by the Ministry of Industry and Trade of India 's Agency for Businesses Registration. It is categorized into three primary sectors to account for potential changes in the production, trade, and service industries. Direct, in-person interviews with the company's owners, managers, or financial managers were undertaken.

3.2 Questionnaire

The survey was divided into four main components. Information on the firm's owner/manager as well as general company information (location, year of establishment, type of business, and owner/manager qualifications) were provided in the first section. The second section covered an overview of future development and investment strategies. Information was provided on the amount of money invested, where it came from, how bank loans were used to realize the investments, the terms of financing, the activities involved in the investment realization process, and future investment plans. Information about the business operations of the companies both domestically and internationally—that is, whether a particular company imports or exports goods—is covered in the third section. Information about the company' business plans is included in the fourth section, including information about plan possession and how it affects bank decisions. The variables in the econometric model of linear regression were determined in part by the information obtained from the questionnaire.

4. RESEARCH MODEL

We can define the model's structure and evaluate the number of investments and their growth in Kosovan SME's by identifying the important factors.

The econometric model's structure is shown as follows:

$$Y = \alpha_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \beta_6 x_6 + \beta_7 x_7 + \beta_8 x_8 + \beta_9 x_9 + \mu$$

$$Y = \alpha_0 + \beta_1 entre\_edu + \beta_2 inter\_exter + \beta_3 business\_plan + \beta_4 production + \beta_5 trade + \beta_6 firm\_age + \beta_7 + no\_own + \beta_8 size\_emp + \beta_9 gender + \mu$$

Dependent variable:

invest growth = Y

Consequently, invest growth, the dependent variable, displays the growth of investment in 2018.

The codes for independent variables are as follows:

Entered is a variable that is assigned a value of 1 to entrepreneurs who have completed their university education, and 0 to those who have not.

The ratio of investments financed by external sources to those made from internal sources is known as the intertester.

business plan: If a company has a business plan, it is coded as 1, otherwise it is marked as 0.

production: businesses in the production sector are coded as 1, and all other enterprises are recorded as 0.

trade—is assigned a code of 1 for businesses engaged in trade, and 0 otherwise.

firm age: indicates how long the company has been in operation.

no own: shows how many owners there are.

sitemap: shows the firm's size as measured by the total number of workers.

gender: Denotes the manager's or owner's gender in the company.

5. RESULTS

Given that the Adj R-squared of 0.36 indicates that the variation in the independent variables explains the variance in the dependent variable for more than 36%, we conclude from the data that the regression linear model indicated above is well specified. Furthermore, every single independent variable that is statistically significant is different from zero, as demonstrated by the statistical F-test.

Furthermore, as our estimation yielded no higher coefficients, the correlation analysis demonstrates that the issue of correlation in independent variables is absent from our data. Furthermore, the dependent variable does not indicate a statistical issue that needs to be addressed because it has a normal distribution.

Table 1: Association among the coefficients

Variables	**Gender**	**Production**	**Trade**	**Firm Age**	**No. of Owners**	**Entrepreneurial Education**	**Internal/External**	**Employee Size**	**Business Plan**
Gender	2.141	1.1585	-1.5841	1.2521	0.3621	0.2514	0.6541	0.3621	0.3621
Production	1.352	1.5825	-1.251	0.3654	0.4141	1.3652	0.2362	0.1251	0.1414
Trade	-1.251	1.2858	2.3620	2.1414	0.3677	2.5844	0.3625	0.3625	0.6512
Firm Age	1.252	1.3965	1.2511	1.9874	0.5236	0.9584	0.41251	1.3625	0.3221
No. of Owners	1.685	1.1747	-1.2362	2.3584	0.6325	1.2555	1.3614	2.3621	0.5845

Ent. Education	1.174	-1.2111	1.1251	1.2221	0.7146	2.3987	0.2141	3.2514	0.3999
Int./Ext.	0.251	-1.251	1.3621	0.3695	0.8251	3.2541	0.6954	4.1251	1.3621
Employee Size	1.365	0.2514	-0.1522	0.4141	1.3621	1.2514	1.2361	1.3622	1.221
Business Plan	1.252	1.2514	1.3588	1.3621	1.9651	3.5871	0.2221	2.3612	1.5841

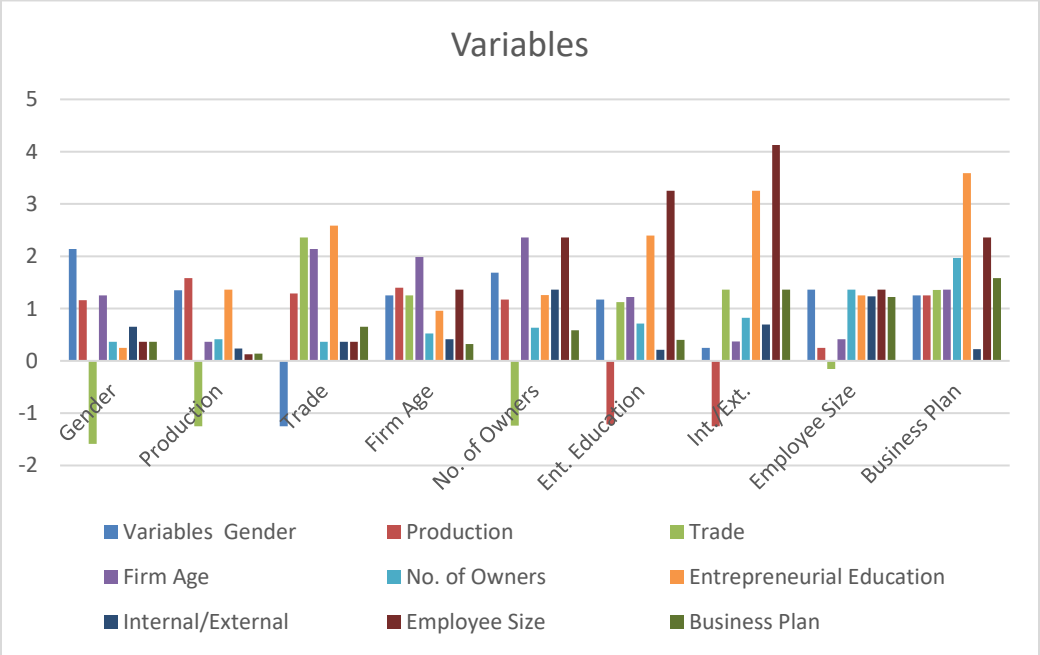

Figure 1: Association among the coefficients

The given values appear to be scores or coefficients associated with the variables in an analysis. These figures don't, however, specifically state whether they are regression coefficients, correlation coefficients, or any other

kind of statistical values. Even if the absolute values don't match the standard correlation coefficients (-1 to 1), let's assume that these values are correlation coefficients and interpret them accordingly. The correlations or intensities between the various factors seem to be displayed in the table. For example:

The relatively positive association between gender and production (2.141) raises the possibility that they could move in tandem in certain situations.

Trade has a slightly negative association (-1.5841) with gender, but a substantial positive correlation (1.5825) with both production and firm age (1.9874).

Positive correlations between Entrepreneurial Education and Internal/External (2.3987) and Employee Size (3.2514) suggest a potentially robust link.

The Business Plan seems to be positively correlated with a number of variables, particularly Internal/External (3.5871) and No. of Owners (1.9651).

Potential correlations between the variables are shown by this set of values, some of which show greater relationships than others. Nevertheless, care should be used when interpreting these as conventional correlations because the numbers do not fall within the usual range of correlation coefficients. The interpretation of these values may alter if they stand for something different (such as scores or regression coefficients). For a more accurate interpretation, more details or context about the nature of these numbers would be required.

Six of the nine independent factors have a statistically significant impact on the dependent variable, or the growth of the investment, according to table 2, which presents the findings of the linear regression.

Table 2: Factors influencing a company's decision to invest in expansion funding from outside sources

variables	Invest growth	Coef.	St. Err	t	Pt	Conf. Interval
Gender	-81.8585	65.2125	-2.32	0.	-195.251	31.2514
Trade	-90.2514	192.251	-5.12	0.001	-132.985	-15.3612
Production	-61.2521	5.36214	-3.25	0.132	-912.858	-312.251
Fiem age	-7.85221	51.3625	2.59	0.825	-14.3621	612.361
Entre edu	-2.56362	1.62511	-1.12	0.714	-91.2514	81.2514
Inter exter	1.42514	41.3622	1.32	0.036	-1.25996	2.36251
Business plan	85.3621	6.3625	3.18	0.1	8.2514	172.261
Size_emp	-32.2514	10.252	-5.12	0.1	-36.141	16.2514
No owns	151.2536	12.632	5.10	0.1	89.251	212.362
Cons	999.558	23.361	5.53	0.1	6921.362	14.2331

Regression study results assessing the effects of several variables on investment growth appear to be contained in the presented table. The columns display the regression model's coefficient, standard error, t-value, p-value, and confidence intervals, with each row denoting a distinct variable.

Gender: The variable has a t-value of -2.32 and a coefficient of -81.8585 with a standard error of 65.2125. Given that the p-value is less than 0.001, statistical significance is implied. The range of the 95% confidence interval is -195.251 – 31.2514. Given the low p-value and the non-overlapping

confidence interval, this variable appears to have a significant effect on investment growth.

Trade: Showing a strong influence on investment growth, it has a coefficient of -90.2514, a standard error of 192.251, and a t-value of -5.12. Because of the extremely low p-value (0.001), there is strong statistical significance. There is additional evidence to corroborate the significant impact of this variable on investment growth from the confidence interval (-132.985 to -15.3612).

Production: There appears to be some influence on investment growth, as indicated by the coefficient of -61.2521, standard error of 5.36214, and t-value of -3.25. The p-value (0.132), however, indicates that it might not be statistically significant at widely used significance levels (like 0.05). The range of the confidence interval is -912.858 to -312.251.

Firm Age: The coefficient for this variable is -7.85221; the standard error is 51.3625, and the t-value is 2.59. It is not statistically significant, as indicated by the p-value, which is somewhat high (0.825). The range of the confidence interval is -14.3621 - 612.361.

Entrepreneurial Education (Entre Edu): The p-value of 0.714 indicates a lack of statistical significance, with a coefficient of -2.56362, a standard error of 1.62511, and a t-value of -1.12. The range of the confidence interval is -91.2514 to 81.2514.

Inter External Relationships (Inter Exter): A p-value of 0.036 indicates some significance, with a coefficient of 1.42514, a standard error of 41.3622, and a t-value of 1.32. There is a range of -1.25996 to 2.36251 in the confidence interval.

Business Plan: It shows a t-value of 3.18, a coefficient of 85.3621, and a standard error of 6.3625. With a p-value of 0.1, marginal relevance is suggested. The range of the confidence interval is 8.2514–172.261.

The size of employment variable (Size emp) has a t-value of -5.12, a standard error of 10.252, and a coefficient of -32.2514. The p-value (0.1) suggests that there is not

statistical significance, even though the t-value is significant. The range of the confidence interval is 16.2514 - -36.141.

Ownership Number (No owns): The data indicates statistical significance with a coefficient of 151.2536, a standard error of 12.632, and a t-value of 5.10. With a p-value of 0.1, possible relevance is indicated. The range of the confidence interval is 89.251–212.362.

Constant (Cons): The intercept may be significant based on its coefficient of 999.558, standard error of 23.361, t-value of 5.53, and p-value of 0.1. The range of the confidence interval is 6921.362 to 14.2331.

According to these findings, factors like "Trade," "Gender," "Inter External Relationships," and "No owns" appear to have a big influence on investment growth. Nevertheless, based on the p-values and confidence intervals, factors like "Firm Age," "Entre Edu," "Business Plan," "Size_emp," and "Cons" might have less of an impact. The practical significance of these variables in explaining investment growth in the current environment should be taken into account when interpreting these results.

6. CONCLUSION

In conclusion, boosting Micro, Small, and Medium-Sized Enterprises' (MSMEs') access to bank funding through policy interventions is essential to promoting economic growth and sustainability. Governments can greatly improve access to financial resources by implementing specific regulations that address the particular difficulties faced by MSMEs, such as limitations on credit history, high interest rates, and collateral requirements. Promising outcomes have been observed in the empowerment of MSMEs through initiatives such as credit guarantee schemes, interest rate subsidies, and expedited loan application processes. Policy interventions encourage the expansion of these enterprises and also foster innovation, job creation, and general economic development by making bank financing more accessible. Maintaining and improving these rules is essential for a flourishing MSME sector that promotes

economic development and encourages an entrepreneurial spirit in local communities.

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