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**Chhatrapati Shahu Institute of Business
Education & Research (CSIBER)**

(An Autonomous Institute)

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**Chhatrapati Shahu Institute of Business
Education and Research (CSIBER)**

**South Asian Journal of Management Research
(SAJMR)
Special Issue**

Volume 14, No. 4, November 2024

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Unlocking Micro Small and Medium Enterprises Potential: Addressing Financial Barriers through Government Initiatives

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in India's economy, contributing nearly 30% to GDP, 45% to total exports, and employing over 110 million people. They foster entrepreneurship, innovation, and reduce regional economic disparities. Despite their significance, MSMEs face many challenges, including inadequate finance, lack of skilled manpower, and limited marketing and technological support. This research identifies financial challenges faced by MSMEs and evaluates government initiatives to address them. Data from 363 MSMEs in Gujarat, India, was collected through a questionnaire and analyzed using various statistical techniques. The findings reveal that MSME growth is primarily hindered by difficulties in loan applications due to lack of financial literacy, high collateral demands, and Section 43B(h) of the Finance Act 2023, which restricts access to formal credit due to stringent criteria. Additionally, government schemes are impeded by lack of awareness, lengthy compliance times, and a digital divide, especially in rural areas. The study employs Cronbach's alpha for reliability testing, Kruskal-Wallis ANOVA and Mann-Whitney U tests to assess differences between micro, small, and medium enterprises, and Friedman rank tests to prioritize issues. Spearman's rank correlation is used to examine the relationship between financial issues and government initiatives. The research concludes with recommendations for both MSMEs and policymakers, emphasizing the need for financial literacy programs, streamlined loan processes, and improved awareness of government schemes. It also suggests adopting modern financial approaches and creating technology hubs to enhance MSME competitiveness and growth. The study contributes to the existing literature by providing a comprehensive analysis of the intersection between financial challenges and government support for MSMEs in Gujarat, offering insights that can be applied to similar contexts in other regions. Furthermore, the research highlights the importance of addressing gender imbalances in business ownership and the need for tailored support mechanisms for different MSME categories. The findings underscore the critical role of digital adoption and innovative financing solutions in overcoming traditional barriers to MSME growth and sustainability.

Keywords: Economic Growth, Financial Challenges, Funding Facilities, Government Schemes, MSMEs.

Introduction

MSMEs stimulate entrepreneurship and innovation, facilitate inclusive economic expansion, and contribute to the reduction of regional economic inequalities. Over the last 50 years, the MSMEs have seen significant growth, establishing themselves as a key component of the Indian economy- Indian MSMEs Annual-Report 2022-23[20]. They play a crucial role in the manufacturing industry, making up around 36% of the manufacturing output. Additionally, they are vital suppliers and subcontractors to large business houses. Following agriculture, this segment shows a substantial position in the economic and social progress of the nation by creating an extensive number of jobs with little financial investment also promoting entrepreneurship. The key statistics about the MSME sector in India as presented in **Table 1**.

Table 1: Key statistics of MSME sector in India.

Aspect	Figures
Total Employment (Millions)	110.00
Production Units (Million)	63.40
Contribution to Manufacturing GDP (%)	6.11
Contribution to Services GDP (%)	24.63

Source: Ministry of MSMEs.

Despite their economic significance, the readiness of MSMEs for industries 4.0 & 5.0 is debatable. MSMEs significantly contribute to the economy as seen in **Table 1**, still they face numerous financial issues like limited funding access, tax reforms, and complex and unclear loan processes. Further the challenges for MSMEs become more crucial with MSME owner's low financial literacy, high interest rates in informal finance alternatives, lack of awareness of government initiatives, digitalisation divide in rural areas, and lack of adoption of latest technology like 3D printing.

In context of availability of financial resources to the MSMEs, it was observed that the formal loan penetration in India's MSME sector is below global standards. MSMEs are confronted with significant challenges due to credit shortfall shown in **Table 2** and **Figure 1**.

Table 2: Formal loan penetration in India's MSME sector.

Aspect	Details
Total MSMEs in India	64 million
MSMEs with Formal Financing	14%
Credit Shortfall	\$530 billion
Total Finance Demand	\$1,955 billion
Debt Demand	\$1,544 billion
Debt-to-Equity Ratio	3.8x
Unmet Credit Demand	47%
Formal Credit Provided by Private Banks	\$289 billion out of \$819 billion total loan demand
Digital Maturity	7.7 million MSMEs have high digital maturity
Digitalization Priority	Only 12% have achieved digital maturity; 60% plan to digitize by 2025
Opportunity for FinTech's and NBFCs	\$530 billion untapped market need

Source: Avendus: MSME Lending Report, 2023.

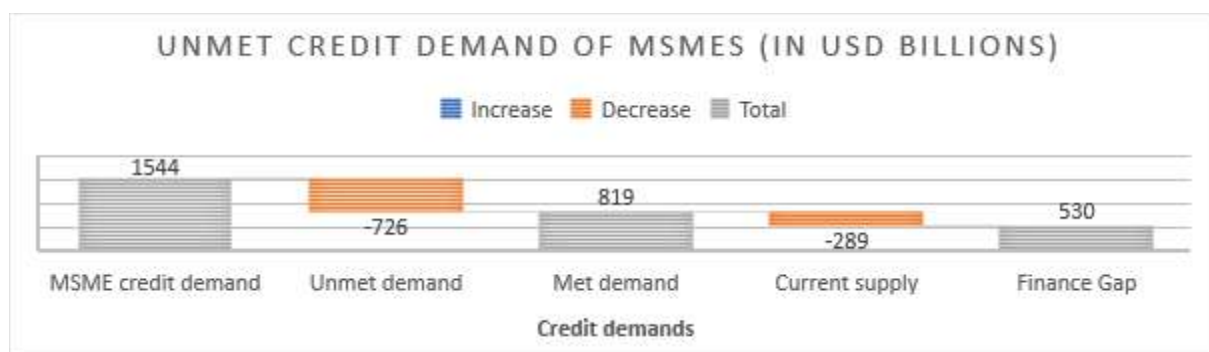


Figure 1: Unmet credit demand of MSMEs.

Source: Avendus: MSME Lending Report, 2023.

The Ministry of MSME executes many projects to provide financial support, however, does these endeavours effectively achieve its objectives? Various Statutory bodies associated with the Ministry of MSMEs like KVIC, TCs, MSME-DFOs, CB, NSIC, MGIRI, and schemes like CGTMSE, and NCGTC launched by the government prima facie indicate strong support to the Indian MSME sector but, the feat of the Programme relies on the competence of them (Sahu et al., 2023)[26]. The present study has addressed the financial obstacles encountered by MSMEs and the government's contribution in overcoming these challenges. The research was carried out in the state of Gujarat and it was observed that, MSMEs are vital to the economy, thus their financing requirements need to be met. In addition to a wide range of government initiatives to provide financial assistance, alternatives like digital lending, other need-based financing solutions like supply chain finance, crowdfunding, fintech solutions, and cash flow-based lending may also help MSMEs access working capital and long-term capital.

Literature Review

Financial and Economic Challenges:

Hughes (1997)[8] highlighted that SMEs with high Non-Performing Assets (NPA) in UK faced high interest rates and security requirements due to their perceived riskiness. Historically, small enterprises were more profitable than larger ones in the 1960s and 1970s, but the economic depression in the 1980s altered this dynamic. Wasiuzzaman (2018)[33] found that in Malaysia, factors such as earnings, expansion, age, size, status, and asset tangibility significantly impact on SMEs liquidity. Stein et.al. (2013)[31] discussed the credit interruption for MSMEs, noticing a significant financial gap estimated between \$2.1 to \$2.6 trillion for about 250 million MSME units in developing countries. Malhotra et.al. (2007)[18] focused on the accessibility of credit for MSMEs, emphasizing the importance of risk management and relationship-based approaches to improve credit access. Bekele and Worku (2008)[4] used hazard ratios in a Cox proportional hazard model to identify determinants affecting the survival of MSMEs in Ethiopia, finding finance to be the most crucial factor. Lakuma et.al. (2019)[12] highlighted the role of financial support in aiding MSME growth in Uganda but noted that limitations such as bribery hinder their development. They emphasized the need for financial inclusion measures to formalize micro-units and prevent corruption. This policy brief by Dash and Ranjan (2023)[6] addresses the financing challenges faced by MSMEs, particularly in developing economies. It highlights three main issues: traditional banking limitations, information asymmetry, and informality. The brief recommends promoting fintech solutions, addressing information gaps, leveraging cooperative models, and exploring innovative financing options. It urges the G20 to take action in developing frameworks and mechanisms to bridge the financing gap for MSMEs and enhance their access to credit and growth opportunities. The literature review by Sharma and Sharma (2024)[28] examines the financial gap in the MSME sector from 2014 to 2023, highlighting challenges such as limited access to formal financing, inadequate financial literacy, and the impact of COVID-19. Key solutions proposed include exploring alternative financing options, developing robust credit information infrastructure, streamlining regulatory procedures, and leveraging digital technologies to enhance financial inclusion and support MSME growth.

Government Policies and Support:

Hughes (1997)[8] noted that the government of United Kingdom occasionally provides loan guarantees, taxation benefits, and financing to support SMEs. Naretto (2002)[24] highlighted the role of innovation and entrepreneurship in public policy for SME clusters, which can mitigate competitive disadvantages due to smaller production and distribution scales. Zindiye et.al. (2012)[34] found that government initiatives such as duty drawbacks and skills training positively impacted MSMEs in Zimbabwe. Maksum et.al. (2020)[17] found that government efforts in East-West Java failed to address critical business concerns, including finance, expertise, and technology. They noted that LIPI provided support through local organizations by offering soft loans rather than charity, indicating a gap in effective government intervention. Das (2008)[5] critically analysed MSME policies in India and found that many government programs underperformed due to inadequate loan options, low cluster growth, and poor-quality goods. This study highlights systemic issues in policy execution and support for MSMEs. Mahesh et.al. (2023)[15] examined Indian government policies like Atmanirbhar Bharat and Startup India, concluding that digitalization efforts require a robust financial system. The research by Utomo (2024)[32] highlights the crucial role of government policy in fostering MSME growth through financial support, promoting innovation, and creating a favourable regulatory environment. Effective policies that enhance access to finance, encourage creativity, and streamline regulations are essential for MSME development. The study suggests policymakers should prioritize implementing programs that improve financial access, support innovation initiatives, and establish a conducive business climate for MSMEs.

Barriers and Solutions:

Jaiswal (2014)[9] and Patnaik et.al. (2016)[25] emphasized the need to address issues such as limited access to loans, inadequate infrastructure, and skill deficiencies to enhance MSME growth. Majumdar and Sengupta (2010)[16] argued for deregulation to promote competition, while Mukherjee (2018)[22] noted that the Indian coir industry faces international competition due to technological and infrastructural gaps. Khurana et.al. (2021)[10] identified executive leadership and public initiatives as crucial for sustainable innovations in the Delhi-NCR region. M Suguna et.al. (2022)[14] analysed the detrimental impact of COVID-19 on SMEs, suggesting a need for policy re-evaluation. Sarmah and Saikia (2023)[27] identifies key barriers for MSMEs at different stages of development, with nascent MSMEs facing marketing and infrastructural bottlenecks as their primary challenge, while mature MSMEs struggle most with capital inaccessibility. Common barriers across both stages include limited access to resources, stringent government policies, and lack of entrepreneurial education and training. To address these challenges, solutions should focus on improving access to capital,

enhancing marketing strategies, providing better business support and assistance, and offering targeted entrepreneurial education and training programs

Strategic Recommendations:

Hakeem (2019)[7] proposed forming special purpose entities by Islamic banks and NBFCs to assist MSME funding, suggesting government-private partnerships to improve sourcing and reduce risks. Banerjee (2023)[3] recommended custom plans, technological adoption, and skill improvement schemes to address capital access and regulatory compliance challenges. Shukla and Shankar (2024)[29] identified government efforts, organizational vision, and regulatory compliance as key factors for successful intelligent manufacturing practices in Indian SMEs.

The present review of related literature reveals that despite the existence of government programs and efforts, MSMEs have been encountering numerous challenges. The studies primarily concentrated on the riskiness of SMEs, government policies, factors influencing the long-term survival of MSMEs, manufacturing performance of MSMEs, the financial gap in formal as well as informal MSMEs, variables related to small business liquidity, the adverse effects of unfair trade, registration of SMEs, MSMEs' exports, and the impacts of the COVID-19 pandemic. Like India, the pandemic has equally affected the MSMEs across the globe. In his study of SMEs in Vietnam, Le, Vo, Nguyen, and Duong (2024)[13], during COVID 19 found that SME firms with innovative capabilities explored the opportunities during this time, firms that were not prepared for any crises or unforeseen events adopted perseverance strategy and firms not adopting changes followed retrenchment strategies.

It has been observed that a very few studies have examined the intersection of financial concerns and the impact of government policies on MSMEs, the studies generally focus on either aspect. Also, the studies focused on a few selected schemes of government and thus, there is a need for a holistic study that can provide a 360-degree view covering all significant challenges and all major schemes of government. The present research will contribute to bridging the gap between financial challenges and government initiatives for MSMEs to add to this field of knowledge.

Research objectives

- Analyze the spectrum of financial challenges faced by Micro, Small, and Medium Enterprises (MSMEs).
- Investigate the barriers that impede MSMEs from effectively accessing and leveraging government support schemes and initiatives.
- Examine the intricate relationship between MSMEs' financial struggles and their ability to navigate and utilize government assistance programs.
- Develop actionable recommendations for policymakers and MSME stakeholders to address identified issues and enhance the effectiveness of support mechanisms.

Research Design

Area of Research and Sample

The state of Gujarat is on the fourth position amongst the top 5 states of India (Table 3) having the highest number of MSME registrations on the Udyam Portal of the Ministry of Micro Small and Medium Enterprises (Udyam Registration Portal – 21/07/2024)[30].

Table 3: Top 5 states amongst registrations of MSME units.

Rank	State	Number of MSME Units
1	Maharashtra	4,557,486
2	Tamil Nadu	2,720,254
3	Uttar Pradesh	2,623,666
4	Gujarat	1,954,358
5	Rajasthan	1,976,732

Source: Udyam Registration Portal.[30]

Out of the total MSME units in Gujarat, Micro units are the maximum in number forming 95.4% of total MSMEs, with 18,64,403 units. Gujarat has a higher percentage of small and medium enterprises compared to the national average, indicating a more diverse business ecosystem. Gujarat has 89,955 non-micro enterprises (small & medium), which is 4.60% of its total registrations. This is significantly higher than the national average of 2.82%, suggesting a more developed small and medium enterprise sector in the (Udyam Registration Portal – 21/07/2024)[30].

Out of a total of 33 districts of the state of Gujarat, MSMEs registered in the top five districts are selected for the present study, which are Ahmedabad, Surat, Rajkot, Vadodara and Kachchh. Based on the Quota sampling method and within the decided timeframe of seven months (Dec-June, 23-24), the data was collected from selected MSMEs of all five districts through a structured questionnaire constituting a total collection of data from 417 units. After the removal of incomplete data from 54 units, the final sample of 363 MSME units was finalized.

Research Instrument.

The structured non-disguised questionnaire is divided into three main parts.

- Part I comprises Demographic variables - Gender, Stage of MSMEs [(i)Micro; (ii)Small (iii)Medium], Category of MSMEs [(i)Manufacturing; (ii)Service], Ownership of MSMEs [(i)Sole proprietorship; (ii)Partnership; (iii)Private Limited], Industrial Sector of MSMEs.
- Part II includes 'Financial Issues', which is further subdivided into four parts –(i) Formal financial problems, (ii) Informal financing issues, (iii) Internal financial issues, (4.3, Table 6) and (iv) Repayment strategies of MSMEs (4.5.4, Figure 4) and
- Part III has information about Government policy issues, divided into two subparts – (i) Government Policy issues of micro, small, and medium enterprises (4.3, Table 6) and (ii) the Current position of the MSME firms with respect to certain government programs. (4.5.5, Table 12) The government programs considered for the study under this part are CGTMSE, PMEGP, PMMY, 2nd Loan PMEGP/MUDRA, CGSSD-Stressed MSME, Credit Facilitation-NSIC.

Research Methodology

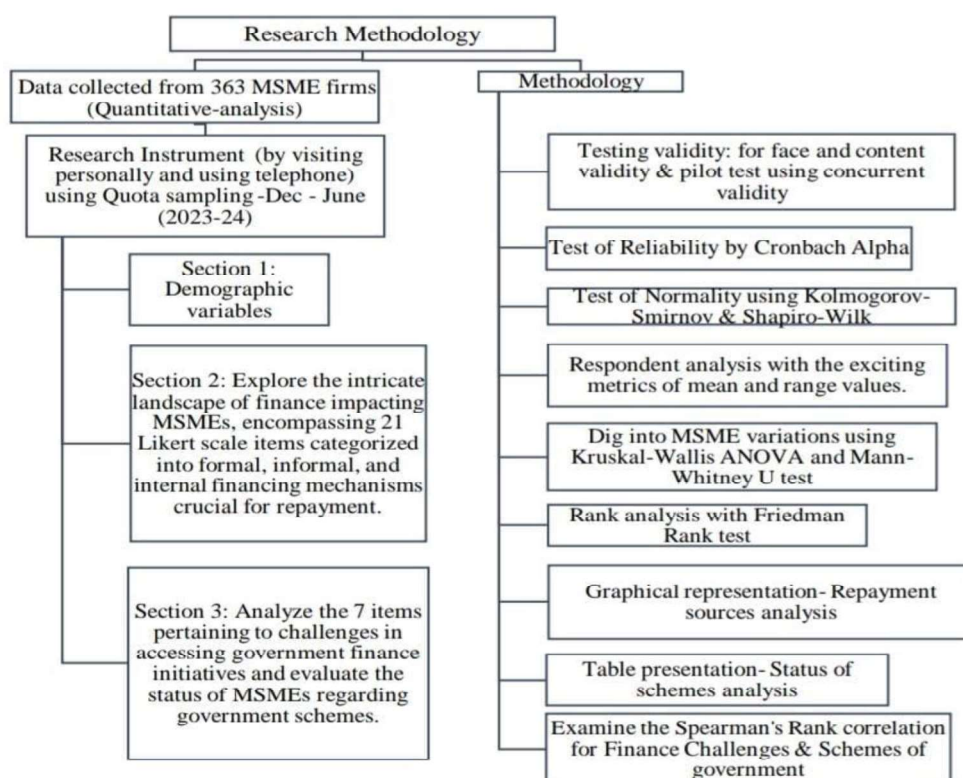


Figure 2: A Graphical Depiction of Research Methodology
Source: Author.

Research Hypotheses

Table 4: Research hypotheses of the study.

H _I	Financial difficulties substantially impact the micro firms within the MSME sphere.
H _{II}	There is a substantial variance among the financial difficulties encountered by the micro, small, and medium enterprises under study.
H _{III}	There is a substantial variance in the rankings of several financial issues the sample enterprises face.
H _{IV}	The Micro firms in the MSME sector encounter maximum difficulty in harnessing the advantages of government programs.
H _V	There exists a difference in difficulty level in the hurdles faced by MSMEs when utilizing government programs.
H _{VI}	There exists a substantial variance in the degree of challenges handled by MSMEs pertaining to access as well as use various government programs.
H _{VII}	There exists a substantial correlation between issues of finance and challenges in execution and access to government programs by MSMEs.

Source: Author.

The hypotheses listed in Table 4 are selected to examine the matters related to the funding and initiatives of government for MSMEs. Micro, small, and medium are three categories of MSMEs. Based on hypotheses I & IV it may be inferred that micro enterprises experience the greatest impact from challenges. This indicates that when a corporation is modest in size, it faces a greater number of obstacles. Hypotheses II & V explain the differences among micro, small, and medium firms regarding the challenges they face. The objective is to ascertain if all tiers of MSMEs encounter issues in a uniform or differentiated way. Hypotheses III & VI delve into the multitude of issues investigated utilizing a five-point Likert-scale, shedding light on the diverse challenges encountered by MSMEs. Furthermore, Hypothesis VII elucidates the correlation between these challenges, conducting an in-depth analysis of their interrelation and effects.

Data Analysis and Discussion of Results

Validity and reliability tests

Reliability measures how consistently a scale produces results when the same characteristics are repeatedly assessed. In this study, all dimensions of the structured questionnaire were evaluated, and the overall Cronbach's alpha was found to be 0.9777, demonstrating the internal reliability of the scale. The reliability of a scale as measured by Coefficient Alpha reflects the degree of cohesiveness among the scale items. The validity of the research instrument was tested to check whether it measures what it is supposed to measure. The test for 'face & content validity' and the pilot test using 'concurrent validity' gave positive results and accordingly validity of the instrument was established.

Demographic variables of the MSMEs

Table 5: Demographic Variables of the MSMEs in the study.

Category	Type	Number
Ownership by Gender	Male Owners	278
	Female Owners	67
	Joint Owners	18
Enterprise Size	Micro Enterprises	218
	Small Enterprises	108
	Medium Enterprises	37
Enterprise Type	Manufacturing	203

Ownership Structure

Service	160
Sole Proprietorship	171
Partnership	133
Private Limited	59

Source: Author (data collection).

The data in Table 5 indicates a notable gender imbalance in business ownership, with 278 male owners in contrast to just 67 female owners, in addition to 18 instances of joint ownership. Micro firms make up the majority, with a total of 218 units, while small and medium companies together represent 108 and 37 units, respectively. Sectoral distribution indicates a little inclination towards manufacturing (203 firms) rather than services (160 firms). Sole proprietorships account for the majority of ownership arrangements (171), followed by partnerships (133) and private limited corporations (59). These findings suggest a predilection for uncomplicated business structures and emphasize the importance of implementing measures to promote female entrepreneurship and broaden the range of company sizes.

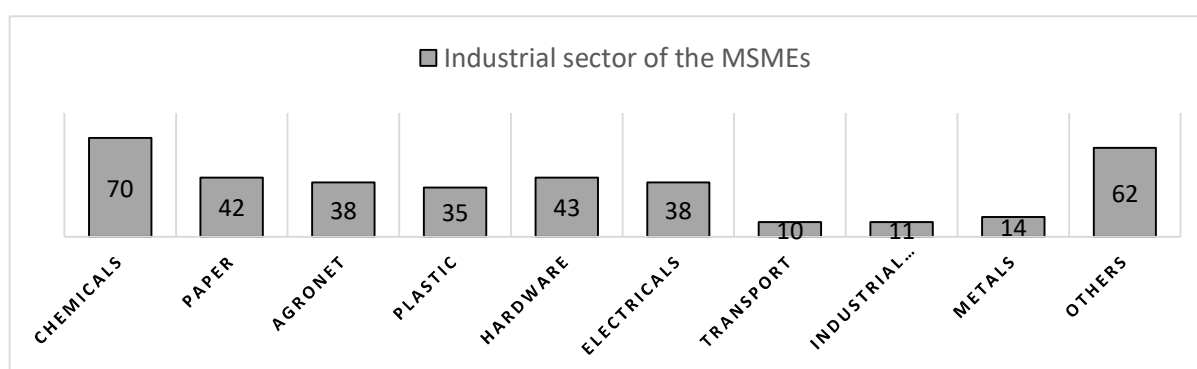


Figure 3: Industrial sector analysed in the study

Source: Author (data collection).

This research includes many industrial sectors (Figure 3) in order to get more meaningful findings. These sectors include chemical, paper, agronet, plastic, hardware, electricals, transport, industrial goods, metals, and others with numbers respectively 70,42,38,35,43,38,10,11,14,62.

Various codes assigned to the problems/factors faced by MSMEs

Table 6: Various codes of problems/factors faced by MSMEs

	Code		Code
Formal finance issues		Internal finance issues	
Inadequate collateral security	FFiPROB1	Delay in the collection of debts	INTFiPROB1
High interest rate	FFiPROB2	High Bad debts	INTFiPROB2
Extensive paperwork processes	FFiPROB3	Short credit period by creditor	INTFiPROB3
Extended processing durations	FFiPROB4	Poor inventory management	INTFiPROB4
Insufficient financial ratios	FFiPROB5	Lesser production increases per unit expense	INTFiPROB5
Unregistered as “MSME”	FFiPROB6	Localized power failures increase in cost	INTFiPROB6
Difficulties with loan repayment	FFiPROB7	Government Policies issues	
Insufficient financial literacy among proprietors	FFiPROB8	Lack of knowledge of the scheme	GOVPPROB1
Change in tax reforms	FFiPROB9	Prolonged documentation and adherence to regulations	GOVPPROB2
Informal finance issues		Inadequate knowledge of application protocols	GOVPPROB3
Inadequate collateral security	INFFiPROB1	Digital Divide	GOVPPROB4
High interest rate	INFFiPROB2	Unregistered as “MSME”	GOVPPROB5
Large loan denials- insufficient legal	INFFiPROB3	Increased probability of refusal	GOVPPROB6

documentation			
Nonpayment results in substantial penalty fees.	INFFiPROB4	Divergent strategies between the federal and regional authorities	GOVPPROB7
Restricted in lending to unidentified parties	INFFiPROB5		
Extended geographical separations are unfavourable	INFFiPROB6		

Source: Author.

Test of Normality:

The normality test conducted by applying the Kolmogorov-Smirnov & Shapiro-Wilk tests indicates that the value of p remains significantly low (Sig. .000). So, the data is interpreted as not normally distributed.

Results of the financial issues & Government policies problems affecting MSMEs

Summated participants' responses to the financial issues and problems of the government policy

The outcomes of issues of formal finance, informal finance, internal finance, and government programs are determined using the following criteria:

Table 7– The range for interpreting the response of respondents

Likert scale	Values assigned		Range for interpretation
Strongly agree (SA)	5	Here Range = (Max-Min) = (5-1) = 4 & Interval = (Range/5) = (4/5) = 0.8	4.21+0.80=5.01 “ 4.21-5.00 ”
Agree (A)	4		3.41+0.80=4.20 “ 3.41-4.20 ”
Neutral (N)	3		2.61+0.80=3.40 “ 2.61-3.40 ”
Disagree (D)	2		1.81+0.80=2.60 “ 1.81-2.60 ”
Strongly disagree (SD)	1		1.00+0.80=1.80 “ 1.00-1.80 ”

Source: Author.

To evaluate the overall influence of the factors affecting MSMEs, mean of every participant is calculated. Mean input is used to calculate response ranging from strongly agree - strongly disagree. As an illustration:

Problems/Factors	Mean values			Respondent's response		
	Micro	Small	Medium	Micro	Small	Medium
GOVPPROB1	4.82	3.42	1.90	SA	A	D

Table 7 summarises the responses of micro, small, and medium-level firms. The responses of micro-level enterprises are mostly categorized as "SA & A," while small-level companies exhibit responses categorized as "SA, A, N, & D." Medium-level enterprises, on the other hand, display responses categorized as "A, N, D, SD." These findings indicate that micro-enterprises encounter a greater number of challenges compared to small enterprises. Medium firms have fewer challenges in comparison to micro & small enterprises. Therefore, Hypothesis I “Financial difficulties substantially impact the micro firms within the MSME sphere.” and Hypothesis IV “The Micro firms in the MSME sector encounter maximum difficulty in harnessing the advantages of government programs.” are *accepted*. To determine the significance of these changes, further tests are conducted.

Variation in the degree of Financial and Government Initiatives issues/factors faced by MSMEs.

Kruskal-Wallis ANOVA test applied indicates p-value < 0.05, implying significant differences between Micro enterprises, Small enterprises, and Medium enterprises (MSMEs) on various issues.

Additionally, a paired Mann-Whitney U test is used to evaluate the variations among Micro-small units, Small-medium units, and Micro-medium units as depicted in Tables 8 and 9. The addition of all the issues faced by two specific groups was computed. Subsequently, the tests were administered with the use of the summated

output of the two specific groups. In all three examples, statistically significant differences are indicated by a p-value of less than 0.05. Here, Hypothesis II “There is a substantial variance among the financial difficulties encountered by the different forms of MSMEs under study.” and Hypothesis V “There exists a difference in difficulty level in the hurdles faced by the sample MSMEs when utilizing government programs.” are accepted.

Table 8 – Results of Mann Whitney U test on Financial problems of MSMEs.

Groups	Micro & Small	Small & medium	Micro & medium
N	326	145	255
Mann Whitney U	155.500	14.000	.000
Wilcoxon W	651.500	69.000	55.000
Asymptotic Sig. (2-sided test)	.000	.000	.000

Source: Author (Results of SPSS tool).

Table 9- Results of Mann Whitney U test on Government initiatives problems of MSMEs.

Groups	Micro & Small	Small & medium	Micro & medium
N	326	145	255
Mann Whitney U	210.500	21.000	2.000
Wilcoxon W	706.500	76.000	57.000
Asymptotic Sig. (2-sided test)	.000	.000	.000

Source: Author (Results of SPSS tool).

Ranking evaluation of Issues/factors faced by MSMEs

Table 10- Results of Friedman Rank test on Financial problems of MSMEs

Ranks

Formal financing	Mean Rank	Informal financing	Mean Rank	Internal financing	Mean Rank
FFiPROB1	6.68	INFFiPROB1	4.71	INTFiPROB1	4.72
FFiPROB2	6.30	INFFiPROB2	4.38	INTFiPROB2	4.37
FFiPROB3	6.12	INFFiPROB3	3.81	INTFiPROB3	3.98
FFiPROB4	5.56	INFFiPROB4	3.58	INTFiPROB4	3.55
FFiPROB5	5.07	INFFiPROB5	2.69	INTFiPROB5	2.38
FFiPROB6	5.57	INFFiPROB6	1.83	INTFiPROB6	1.99
FFiPROB7	3.28				
FFiPROB8	3.11				
FFiPROB9	3.31				

Test Statistics

N	363	N	363	N	363
Chi-Square	376.197	Chi-Square	260.555	Chi-Square	261.099
df	8	df	5	df	5
Asymp. Sig.	.000	Asymp. Sig.	.000	Asymp. Sig.	.000

Source: Author (Results of SPSS tool).

Table 11 Results of Friedman Rank test on Government Initiatives of MSMEs

Ranks

	Mean Rank
GOVPPROB1	5.38
GOVPPROB2	5.04
GOVPPROB3	4.65
GOVPPROB4	4.36
GOVPPROB5	3.50
GOVPPROB6	2.80
GOVPPROB7	2.27

Test Statistics	
N	363
Chi-Square	266.749
df	6
Asymp. Sig.	.000

Source: Author (Results of SPSS tool).

The ranking of issues assessed by the Friedman rank method as displayed in Table 10 and 11. Individual variables from the three financing groups—formal, informal, and internal—as well as variables of government initiatives are examined in this study in order to conduct a rank analysis. To find the mean rank, add up the rankings for every item and divide it by the total no. of observations. A higher ranking indicates superiority across all variables.

Formal finance (1>2>3>4>5>6), informal finance (1>2>3>4>5>6), internal finance (1>2>3>4>5>6), and government efforts (1>2>3>4>5>6) are ranked in the event of issues or factors. Issues with "Inadequate collateral security," "Tax reforms", and "Extensive paperwork processes" are the most significant in the realm of formal finance. "Insufficient financial literacy among proprietors" is the least prominent concern. "Inadequate collateral security", "high interest rate", "Large loan denials- insufficient legal documentation," are the most impactful problems with informal finance, and "Extended geographical separations are unfavourable," are the least identified. Problems with "Delay in the collection of debts," "High Bad debts," and "Short credit period by a creditor," are the most challenging aspects of internal finance and the least noticeable issue is, "Localized power failures increase in costing,". The most impactful issue with government initiatives is "Lack of knowledge on the scheme," then "Prolonged documentation and adherence to regulations," "Inadequate knowledge of application protocols," "digital divide" and lastly, "Divergent strategies between the federal and regional authorities," which is the least prominent concern. Here, Hypothesis III "There is a substantial variance in the rankings of several financial issues the sample enterprises face." and Hypothesis VI "There exists a substantial variance in level of challenges handled by MSMEs in relation to accessing & using various government programs." are accepted.

Examining the repayment strategies used by companies to settle their credit obligations

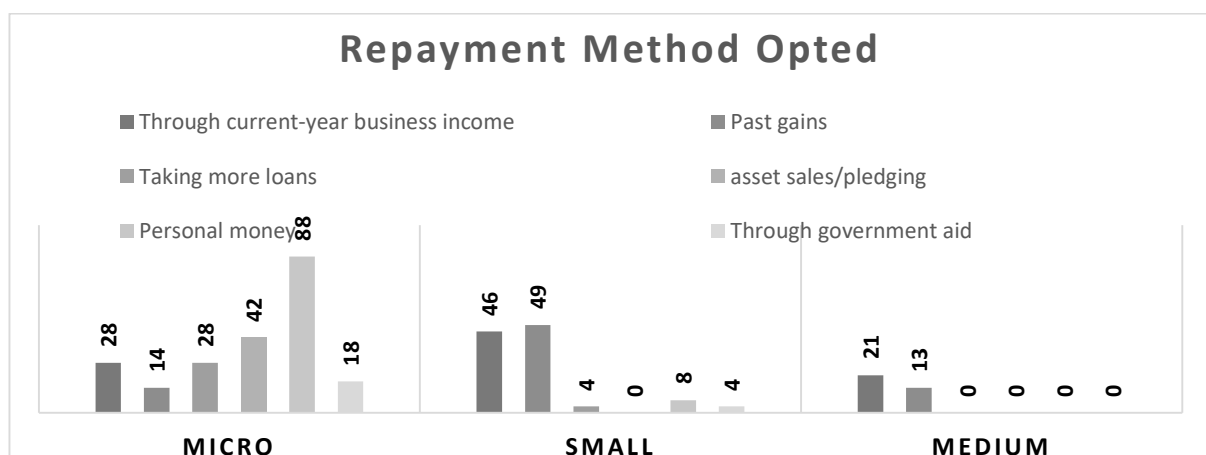


Figure 4: Various repayment method opted by MSMEs

Source: Author (data collection).

The bar graph illustrates the different repayment mechanisms used by MSMEs (**Figure 4**). For micro enterprises, the predominant means of repaying is taking more loans, then by sales & pledges of assets, and finally government aid. The most significant method of reimbursement for small & medium businesses is the use of current & past gains. Limited money affects repayment techniques, resulting in larger financing challenges for micro enterprises also seen in **Table 3** as compared to small & medium-sized organizations.

Current positions of the firms concerning certain government programs.

Table 12: Current positions of the firms towards certain government programs.

For below table- (Not eligible= NE; Not Applied= NA; Applied= A; Received= R; Denied= D; Unaware= U) & (Micro units: mi; Small-units: S; Medium-units: Me).

		NE	NA	A	R	D	U
		Mi S Me	Mi S Me	Mi S Me	Mi S Me	Mi S Me	Mi S Me
1	CGTMSE.	0 0 35	25 0 0	7 11 0	18 42 0	42 0 0	127 56 0
2	PMEGP	0 0 35	18 0 0	14 18 0	11 32 0	52 25 0	123 35 0
3	PMMY	0 0 0	0 0 0	18 7 4	74 81 25	32 0 0	92 21 9
4	2nd Loan PMEGP/MUDRA	0 0 0	0 0 0	25 32 4	28 25 14	42 11 0	123 42 17
5	ISO 9000/ISO 14000	0 0 0	0 0 0	14 14 0	11 11 0	25 11 14	166 76 21
6	CGSSD-Stressed MSME	0 0 0	0 0 0	18 0 0	95 74 28	28 0 0	78 35 7
7	Credit Facilitation-NSIC	0 0 0	0 0 0	18 18 14	28 11 7	48 4 0	123 78 14
	Total	0 0 70	43 0 0	114 100 22	265 276 74	269 51 14	832 343 68

Source: Author (data collection).

According to Table 12 Major factor in micro units is “inadequate knowledge about the policies” then by “refusal of officers” and then followed by “gaining advantage of the policies”. In this the “inadequate knowledge” shows greater than 50% which evaluates the significant issue is inadequate knowledge among the respondents. Seeing the ranks also the same is ranked as major variable for problems in schemes.

For small businesses, “inadequate knowledge about the policies” and “gaining advantage of the policies” rank highest, respectively. It may be argued that inadequate knowledge is once again at play here, but in contrast to micro firms, “refusal of officers” is not a problem. In comparison to micro-enterprises, small businesses are better off.

The most important issue for medium-sized businesses is whether they have “reaped gaining advantage of the policies,” while “Inadequate knowledge” ranks second. When compared to MSMEs, the “unawareness factor” is lower in this context. In addition, the rate of accounts receivable is rather high.

Association between financial issues and governmental programs

Table 13 – Results of Spearman’s Rank correlation in finance & government composite

		Finance composite	Government composite
Spearman's rho	Correlation Coefficient	1.000	.910**
	Sig. (2-tailed)	.	.000
	N	363	363
	Correlation Coefficient	.910**	1.000
	Sig. (2-tailed)	.000	.
	N	363	363

Source: Author (Results of SPSS tool).

Spearman's rank correlation analysed finance concerns and government efforts in Table 13. Based on the highlighted issues, 2 composite scores are initially generated for this examination: one related to financial concerns and another for challenges in obtaining government policies. According to the statistics provided above, the correlation coefficient, which quantifies the forte & trend of the connection, is 0.91. Additionally, the

value of p is less than 0.01, suggesting a strong association between the variables. There is a sturdy constructive connection among them. Due to the substantial obstacle of funding for MSMEs, they rely on initiatives of government as a remedy, yet the problems persist. Here Hypothesis VII “There exists a substantial correlation between issues of finance and challenges in execution and access to government programs by MSMEs.” is accepted.

Conclusion

India's economy significantly depends on MSMEs, which are essential for driving economic growth through manufacturing, exports, job creation, and innovation. However, these enterprises face numerous challenges that impede their growth and sustainability. The present study examines the MSMEs in the state of Gujarat to assess the financial issues and difficulties faced by them in accessing the benefits of government initiatives and programs. The issues and factors affecting the same were identified through primary data collected via questionnaires from 363 MSMEs across five districts in Gujarat, India.

It is observed that tax reforms and Section 43B(h) of the Finance Act 2023, limited access to formal credit due to strict criteria of financial institutions, high collateral demands, difficulty in loan application due to lack of financial literacy, and working capital management, hinder MSME growth. Despite numerous policies and schemes from the Government and the RBI, the MSME sector continues to struggle with accessing timely and adequate financing. Both entrepreneurs and bankers face challenges that contribute to this issue. In the context of Digital India and Atmanirbhar Bharat, many innovative small start-ups in the manufacturing and service sector require risk capital and timely credit. Although many enterprises are becoming financially distressed, the rate of NPAs in this sector is lower than that of larger enterprises, which should be taken into account by banks while providing funding to MSMEs. (Mund, 2020)[23]. Kromidha, Yadav, and Ilavarasan (2023)[11] discovered that the success of projects is more heavily influenced by external environmental factors than by the specific characteristics of the projects themselves. This holds true even when there is a digital and social disconnect between borrowers and their funders. The government should also encourage women entrepreneurs in MSMEs. The Government must implement reforms in policies and regulations to better support MSMEs and should ensure that these programs are reaching and utilized by MSMEs.

The government formulates policies to tackle financial issues, but these schemes are inaccessible due to various factors, including limited awareness, cumbersome paperwork, inadequate understanding of the schemes, digital divide in rural areas, restrictions on eligibility and funding, the need to register as MSMEs, a higher likelihood of refusal, low financial literacy and competition from state and central programs. These industries should register themselves in the portal under the proper head and follow established norms and standardized practices to operate more effectively and face local as well as global competition, they should be digitally connected to be aware of and take advantage of various government schemes. Furthermore, MSMEs should collaborate with larger firms to introduce competitive products to the market.

Suggestions and Recommendations (Figure 5)

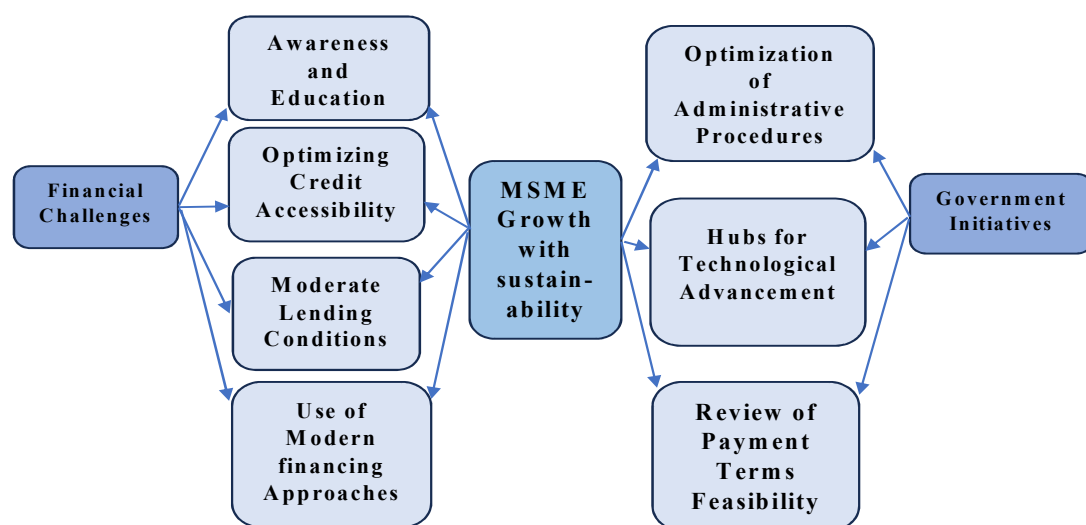


Figure 5: Framework for MSMEs growth.
Source: Author

Strategies for MSMEs to overcome financial challenges

- **Awareness and Education Campaigns:** Develop and execute focused financial literacy initiatives to educate MSMEs on the numerous financial products and services that are accessible. This encompasses comprehending repayment conditions, interest rates, and the significance of sustaining favourable credit ratings. Engage in partnerships with financial institutions and fintech businesses to provide workshops and seminars that specifically target the acquisition of practical financial management skills and the effective use of digital financial instruments.
- **Optimizing Credit Accessibility:** Simplify the loan application procedure to enhance its accessibility for MSMEs. Promote the use of financial technology platforms that provide alternative credit scoring models, which utilize non-conventional data sources to evaluate creditworthiness. This can assist MSMEs with restricted credit histories in obtaining essential funding.
- **Moderate Lending Conditions:** Promote credit providers to give more advantageous loan conditions to MSMEs. Develop precise criteria for lenders to evaluate MSME loan applications, emphasising the reduction of collateral requirements and the provision of competitive interest rates. Implement risk-sharing structures, such as the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), to lower perceived risks.
- **Use of Modern financing Approaches:** MSMEs should adopt modern financial methodologies to enhance growth and resilience. Key strategies include using digital tools for cash flow management, exploring alternative financing options like crowdfunding, and implementing robust financial planning. These methodologies optimize financial performance and help MSMEs adapt to market changes, ensuring sustainable growth (Mittal et.al., 2024)[21].

Strategies for MSMEs to address gaps in Government Initiatives/schemes of MSMEs

- **Optimization of Administrative Procedures:** Streamlining the registration and compliance procedures for MSMEs in order to alleviate administrative workloads is needed. To guarantee convenient access to registration and compliance information, it is essential to consistently update the MSME site. This entails including feedback systems to facilitate ongoing improvement.
- **Hubs for Technological Advancement:** Create technology centres to facilitate the adoption of advanced manufacturing technologies by MSMEs. Establish district-level facilities furnished with technologies such as 3D printing to provide MSMEs access to cutting-edge manufacturing methods which can benefit in more profitable business alternatively increasing finance by optimizing product quality and saving manufacturing expenses (Argade & Mazumdar, 2023)[1].
- **Review of Payment Terms Feasibility:** Reassess the 45-day payment criteria to guarantee prompt payments to MSMEs. Enforce more stringent sanctions for late payments and encourage the use of digital platforms such as TReDS (Trade Receivables Discounting System) to expedite payment processing.
- The use of these pragmatic and precise measures enables MSMEs to effectively manage financial obstacles and use government programs to promote development and long-term viability.

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