International Journal of Economic Research
Volume 16 • Number 2 • 2019, ISSN 0972-9380
available at http: www.serialsjournal.com

Finance for Micro, Small and Medium Enterprises (MSMEs) – A Conceptual Framework

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Abstract: The main objective of this study is to propose the conceptual framework to assess empirically the financial obstacles associated with different stages of MSME Life Cycle in accessing the finance and also its impact on the MSME Performance. The conceptual framework is based on the literature review on factors affecting access to finance of MSMEs and its performance. This study mainly focuses on the financial obstacles faced by the MSMEs during their Life cycle. Extant literature review on the financial obstacles and Life cycle of MSME supports the framework. The other key constructs like Firm attributes and Financing decision and its impact on accessing the finance by MSMEs was also supported by the literature review. Additionally, the conceptual framework developed is expected to be useful to policymakers in designing a policy for MSMEs, and also for the academicians in developing an agenda for future empirical research.

Keywords: Firm Attributes, Financial obstacles, Financing decision, Life Cycle of MSME, Access to Finance, MSME Performance

JEL: L26, L25, G21, O12

INTRODUCTION

Micro Small and Medium Enterprises (MSMEs) contribute a major part of the industrial activity in all countries of the world and MSME plays a catalytic role in the development process of most of the countries. The growth of this segment has a multiplier effect on the economy in view of huge employment generating capacity. According to Eniola and Ektebang (2014) Small and Medium Scale Enterprises are acknowledged to own a prodigious potential for Sustainable Development. The surplus of the manpower from larger corporations was ready to be reinstated back to the employment, mainly through the growth of MSMEs.

The MSME sector in India is unbelievably heterogeneous in terms of the size of the enterprises, a variety of goods and services produced and levels of technology employed. As per the Micro, Small and Medium Enterprises Development Act of 2006, enterprises with the capital investment (plant, machinery, and equipment) levels within 10 crore INR (for services worth 5 crore INR) qualify as MSMEs. The MSME sector contributes in a significant way to the growth of the Indian economy with a huge network of over 32 million units, creating employment of about 70 million, manufacturing over 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. It is an acknowledged fact that the MSME sector will facilitate to realize the target of the projected National Manufacturing Policy of raising the share of the manufacturing sector in GDP from 16 % at present to 25% by the end of 2022.

To ensure that MSMEs can grow in tandem with the economy in this age of increasing globalization, it is essential to resolve the issues faced by most of them. Despite the sector's strategic importance for industrialization and employment generation, as well as the opportunities that the Indian landscape presents, MSMEs in India face several challenges. Technological obsolescence and funding issues have been related to the sector for a long time. Also, constraints such as high cost of credit, low access to new technology, poor ability to dynamic trends, lack of access to international markets, lack of skilled manpower, inadequate infrastructure facilities, as well as power, water, roads, etc. further as regulatory problems associated with taxation, labour laws, and environmental problems are hampering the expansion of Indian MSMEs.

The main objective of this paper is to propose a conceptual framework to assess empirically the financial obstacles associated with different stages of MSME Life Cycle in accessing finance and its impact on MSME Performance. The paper consists of four sections. Section 2 begins with a brief description of MSME definitions and types. Section 3 provides the conceptual framework of the study. Section 3 elucidates literature review of firm-level characteristics, financial obstacles faced by MSME, different sources of finance available to MSME and their financing decision, different life cycle stages of MSME sector, accessibility of finance by MSME and their performance. Section 5 concludes the study.

DEFINING THE SECTOR

The term 'MSME' is widely used to describe small businesses in the private sector. Regulators and financial institutions across the world use parameters such as employee strength, annual sales, the value of fixed assets, and loan size proxies to define the sector in the context of finance. According to the World Bank definition, business is classified as MSME when it meets two of the three criteria – employee strength, size of assets, or annual sales (Table 1).

Table 1: World Bank Definition of MSME

Enterprise Size	Employee	Assets	Annual Sales
Medium	<300	≤ USD 15 Million (≤ INR 750 Million)	≤USD 15 Million (≤INR 750 Million)
Small	<50	≤USD 3 Million (≤INR 150 Million)	≤USD 3 Million (≤INR 150 Million)
Micro	<10	≤USD 10,000 (≤INR 500,000)	≤USD 10,000 (≤INR 500,000)

Source: World Bank

The Micro, Small and Medium Enterprise Development Act 2006 (MSMED Act) of the Government of India defines the MSME sector. An extension of the erstwhile definition of Small Scale Industry (SSI), this classification uses the investment metric (Table 2) to define MSMEs because investment in plant and machinery can be measured and verified. The MSMED Act broadly segments the MSME sector in the following manner:Table 2: MSMED Act Definition of MSME

Initial Investment in Plant and Machinery (in INR Million)*			
Category/Enterprise Size	Micro	Small	Medium
Manufacturing	<2.5 (<50,000)	2.5 – 50 (50,000 – 1 Million)	50– 100 (1 Million – 2 Million)
Services	<1 (<20,000)	1 – 20 (20,000 – 0.4 Million)	20– 50 (0.4 Million – 1 Million)

*Figures in brackets are in USD; Source: MSMED Act

CONCEPTUAL FRAMEWORK

The conceptual framework proposed below shows the relationship between the variables in the study. This conceptual framework is developed based on a broad literature review to identify constructs that are significant in explaining MSMEs' performance. The literature review identifies five key constructs that have an impact on the firm performance, i.e., (1) Firm Attributes, (2) Financial Obstacles, (3) Sources of Finance / Financing Decision, (4) Life Cycle of MSME, and (5) Access to Finance. Access to Finance acts as a mediating variable between firm performance and other constructs. All the constructs and relationship among those constructs have been studied intensively in the existing literature, the conceptual framework has been proposed to consolidate those constructs in a single framework. The proposed conceptual framework is shown in Fig. 1.

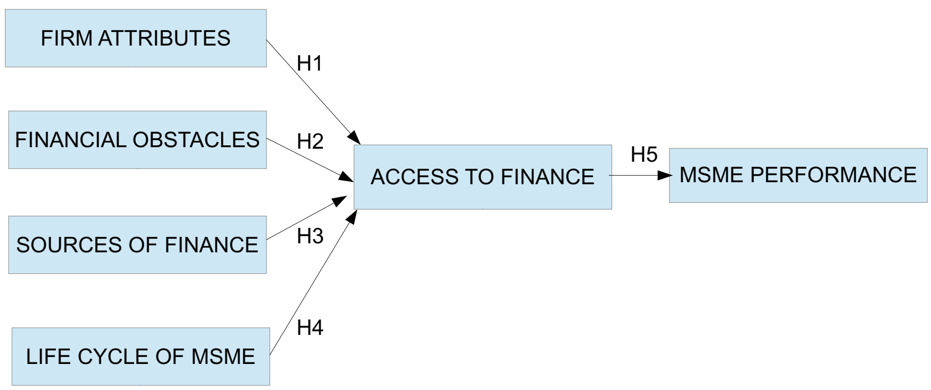

Fig:1 Proposed Conceptual Framework of the Study

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The results of the review of existing literature sources show that the MSMEs performance in terms of success or failure depends on the firm's ability to access finance and the firm's ability to access finance depends on several determinants as presented in the following Table 3.

Table 3: Construct and Hypotheses Development

Construct	Sources	Determinants	Hypotheses
Firm Attributes	Fatoki and Asah (2011), Stiglitz and Weiss (1981), Klapper (2010), Ngoc, Le and Nguyen (2009), Abor (2008), Watson, Newby, & Mahuka (2009), Cassar (2004), Coleman and Cohn (2000), Satish Kumar and Purnima Rao (2015), Sutton (1997), Ayyagari et al. (2014), Dong and Men (2014), Quartey et al. (2017)	Firm Size, Firm Age, Ownership, Location and other Entrepreneur Characteristics like Age, Education, and Gender	Impact of Firm Attributes on Access to Finance.
Financial Obstacles	Levy (1993), Lownes-Jackson et al. (2003), Pettit and Singer (1985), Thevaruban (2009), Ambrose (2012) Lahiri (2012), Suwastika Naidu& Anand Chand (2012)	High cost, Inability to obtain outside financing, Insufficient capital, Heavy operating expenses, Poor money management, Large losses due to crime, Meeting the payroll, Inability to obtain trade credit, Insufficient profit, Ability to meet financial obligations, Health insurance costs, Cost of workers' compensation, Financing problems, Operational and Administrative problems, and Sales and Debtors problems.	Impact of Financial Obstacles on Access to Finance.
Sources of Finance	Shepherd (1997), Eisenhardt & Martin (2000), Faulkender & Peterson (2006), Pretorius and Shaw (2004), Fischer and Reuber (2003) Keasey & Watson (1994), Samuels, Wilkes, & Brayshaw (1997), Cosh & Hughes (2003), Berger & Udell (1998), Venturelli & Gualandri (2009), Carey and Flynn (2005), Burt (1992) Kumar, Subramanian, & Strandholm (2001) Pinho (2011)	Formal and Informal Finance, Internal and External Finance, Debt and Equity Finance, Alternative forms like Crowd Funding, Social Network Finance etc☐	Impact of Financial Decision / Sources to Finance on Access to Credit.
Life Cycle of MSME	Churchill and Lewis (1983) Kazanjian (1988) Fluck et al. (1998)	Conception and Development, Commercialization, Growth, and Stability	Impact of different stages of the life cycle of MSME on Access to Finance.
Access to Finance	Stiglitz and Weiss (1981) Petersen and Rajan (1994) Gertler and Gilchrist (1994) Torre et al. (2010), Hyytinen and Pajarinen (2008)	Firm Attributes, Financial Obstacles, Financing Decision, Life Cycle stage of Enterprise	-
MSME Performance	Carpenter et al (2002) Amornkitvikai & Harvie (2016), Harash, Suhail, & Jabbar (2014), Vanacker, Collewaert and Zahra (2016), Odongo (2014), Turyahebwa et al (2013), Popa & Ciobanu (2014), Bitila (2014), Popa & Ciobanu (2014), Mugunchu (2013), Nderitu & Githinji (2015)	Financial ratios such as Profitability ratios, Debt ratios, Market ratios, Liquidity ratios, Solvency ratios	Access to Finance has positive impact on MSME Performance.

Firm Attributes

Fatoki and Asah (2011) find out that firm size impacts MSMEs' access to debt finance from commercial banks whereby small enterprises are less favored to large firms. From the literature, market failure in lending to SMEs can arise for several reasons, primarily relating to their relatively small size, lack of resources and opaqueness. In the seminal contribution by

Stiglitz and Weiss (1981) they show that, due to asymmetric information and principal-agent problems, lending institutions find it difficult to distinguish between good and bad risks, resulting in adverse selection and moral hazard problems. In this context, financial institutions like banks are finding it less risky and less costly to lend to large enterprises. From their point of view, therefore, it is rational to apply credit rationing to SMEs, which are subject to greater opaqueness and risk.

The age of the firm refers to the length of time that a firm has existed, usually expressed in years. Firms at the early stage of operation used to experience difficulties in access to debt finance because of informational disparities. The firm starts to operate and grows with business performances on a trade which create a reputation in the credit history. Credit reputation reduces the moral hazard dilemma hence create a path to access debt finance. The study conducted by Klapper (2010) discovered that the firms with less than 5 years (younger firms) in operation are less likely to rely on debt financing from lenders. Ngoc Le and Nguyen (2009) supported the argument that younger firms face hardship and more costs in accessing external financing from lenders because of information asymmetry. Thusly, it's a theoretical presence of a positive relationship between the firm age and MSMEs access to financing.

Ownership plays a crucial role in deciding the capital structure of MSMEs. Managerial ownership is regulated by fear of insolvency and a shareholder's possession is guided by agency cost and cost of insolvency arises due to debt financing. Therefore both are less likely to use debt in the capital structure of their firms (Abor, 2008). Thus, the age of the firm, size of the firm, asset structure, profitability, risk, and managerial ownership are important in influencing the capital structure decisions (Abor, 2008; Watson, Newby, & Mahuka, 2009). Cassar (2004) found out that lenders observe incorporation as a good indicator of the firm's trustworthiness and commitment to operational laws. The study conducted by Coleman and Cohn (2000) and Fatoki and Asah (2011) evidenced the presence of a positive association between debt financing and the legal formation of the business organization. It is also evident that there is an existence of a positive relationship between incorporation and access to debt financing by MSMEs.

The literature review on MSME financing summarises profitability, age, size, tangibility, and growth as the major factors affecting the capital structure of MSMEs. (Satish Kumar and Purnima Rao 2015). Sutton (1997) examined the effect of firm characteristics on performance. The study on the effect of firm characteristics on performance predominantly stems from Gibrat's Law or the law of proportionate effect, which is the probability that the next opportunity taken up by any particular active firm is proportional to the current size of the company. Ayyagari et al. (2014), Dong and Men (2014), and Quartey et al. (2017) researched the effects of firm characteristics, such as firm size and age. Thusly, it's theoretically evident that there is a presence of a positive relationship between the firm attributes and SME's access to financing.

Financial Obstacles

The literature review about barriers to the growth of MSMEs is comparatively high. Levy (1993) research results showed that financial constraints were the main obstacles for firms to grow. The major constraints are access to finance, access to non-financial inputs, and high cost. Lownes-Jackson et al. (2003) emphasized 11 financial obstacles faced by African-American entrepreneurs. These financial variables are the inability to obtain outside financing; insufficient capital; heavy operating expenses; poor money management; large losses due to crime; meeting the payroll; inability to obtain trade credit; insufficient profit; ability to meet financial obligations; and health insurance costs and cost of workers' compensation. The inability of small businesses to obtain internal and external financing has been continuously emphasized by academicians and practitioners in the extant literature (Pettit and Singer, 1985).

Thevaruban (2009) examined MSMEs and their financial issues in Sri Lanka. He emphasized that MSMEs find it extremely tough to get external finance as a result of the cash inflow and low savings. Hence, bank and non-bank financial institutions do not emphasize much on credit lending for the development of the MSMEs. Ambrose (2012) conjointly known barriers to effective financial assistance to MSMEs, which included the absence of collateralized security, and the regulatory framework. Also, the lack of infrastructure, the unavailability of skilled workers, and the inability to raise capital through the stock market are alternative challenges (Lahiri 2012). The financial problems faced by the MSMEs could be divided into three broad categories: financing problems; operational and administrative problems; and sales and debtors problems. (Suwastika Naidu& Anand Chand 2012) So there is an expansive level of accord in the literature review that financial obstacles are one of the key exploratory determinants of the growth and survival of MSMEs.

Sources of Finance

According to Shepherd (1997), credit determines access to all of the resources of the MSMEs rely upon. Credit serves as a source of funds to SMEs that can be utilized in the production and sustaining a firm competitive advantage process (Eisenhardt & Martin, 2000). A firm's capital structure is entirely a function of the firm's demand for capital. When estimating a firm's capital structure, it is important to include not only the determinants of its capital structure but also the variables that measure the constraints on a firm's ability to obtain capital (Faulkender & Peterson, 2006).

Pretorius and Shaw (2004) recognized two fundamental financing ideas of MSMEs, the internal and external forms of financing. Still, a lot of profitable MSMEs makes use of external sources of finance from financial banks, individual investors, venture capitalist, and crowd funding. According to Fischer and Reuber (2003), external resources suppliers could be a key ingredient for a rapid climb. Most MSMEs use a lot of internal sources of finance and this affects their performance. The factors of success of business start-up, development and performance of MSMEs are based on access to finance either external or internal.

Debt financing is often obtained from two sources, formal and informal sources. Formal sources are typically viewed as institutional sources, whereas informal sources refer to family, friends, directors, trade credit, and so on. Debt financing occurs once investors offer capital in the form of loans for the owners of an organization to run the business. The firm, in return, pays the rate of interest for the utilization of the credit borrowed from the investors. Many MSMEs, which require external finance, prefer to use debt finance from lending institutions as the first source of capital, especially banks, which are the most popular source of debt finance (Keasey & Watson, 1994; Samuels, Wilkes, & Brayshaw, 1997). While bank financing is the main form of formal financing available to MSMEs (Cosh & Hughes, 2003); equity finance obtained from a venture capitalist is less prevalent especially in developing countries due to an under-developed financial market and other institutional characteristics. However, equity finance is the most suitable form of finance available to young and small firms (Berger & Udell, 1998). However, most of the MSMEs do not offer attractive investment opportunities and lack the necessary corporate governance to secure investors rights, they typically struggle to secure equity finance (Venturelli & Gualandri, 2009), leading to a financing gap for such firms.

Angel Investors are not very active in India in providing seed capital to MSMEs like in several developed countries like the UK and the USA. MSMEs in India are starved of equity capital. The small firm size, high transaction cost, valuation and exit issues, lack of willingness of promoters in diluting ownership are making the sector unattractive for external equity financing. Due to lack of Owners' capital i.e. margin, MSMEs additionally notice it tough to urge help in the form of working capital. To address the lack of financing of small and medium enterprises through equity capital, Prime Minister's Task Force in 2010 recommended setting up of dedicated stock exchange/platform for MSME. In response to the present recommendation, the Securities and Exchange Board of India (SEBI) set down the regulation for the governance of the MSME Platform. MSME platform was launched by Bombay Stock Exchange (BSE) in March 2012. A large number of the investors can be pulled in by the listing of firms which will encourage the MSMEs from numerous points of view, for example, rising the long term financing opportunities, getting progressively ideal loaning terms from financial institutions, increasing visibility, and credibility. Since factoring provides instant availability of cash on receivables, it resolves the funding problems of the MSMEs. Although, factoring services can solve the working capital needs of the MSMEs yet its penetration in India is very low. MSMEs often face the twin challenges of the delayed release of funds by their financiers and delayed payments on receivables by their customers. Financial institutions in India need to be more proactive in providing finance against the receivables factoring. Globally, factoring may be the most well-liked route of accessing working capital for SMEs. The enactment of the Factoring Regulation Act in 2011 in India is expected to provide a boost to factoring services. Factoring offers advantages like open account facility which suggests credit limit will increase as sales grow, provided the firm encompasses a satisfactory record of payments.

Carey and Flynn (2005) discussed alternative forms of finance that can be obtained through social networks. The benefits derived through social networks define the social capital of enterprises. This becomes more important in the context of MSME financing because inter and intra social associations of MSMEs can provide mutual benefits to the related parties. Social capital is also known as an intangible relational asset of a firm and it can affirmatively influence growth and future investment decisions of a firm (Burt, 1992; Kumar, Subramanian, & Strandholm, 2001). Thus, networking helps in providing access to information and other resources in an exigent and challenging business environment. MSMEs need to leverage their network relationship, which provides access to novel sources of information to cope with turbulent environmental conditions (Pinho, 2011).

Based on the extant literature review, the above section examines the effect of sources of finance. The scholarly studies point out that the MSMEs prefer more informal sources of finance than formal sources. Though the government is taking many initiatives by way of introducing many schemes incorporating subsidies, incentives, guarantees, and assistance to develop easily accessible lending infrastructure to boost the economic growth of MSMEs. However, still, the MSMEs are facing challenges in accessing finance. Due to the challenges in accessing finance, the source of a selection of finance becomes an obligation. Therefore, to address this problem, the conceptual model developed in this study includes the impact of financing decisions of MSMEs in accessing finance in different stages of their life cycle.

Life Cycle of MSME

Churchill and Lewis (1983) developed a framework for identifying and studying the issues that occur in small businesses over time and particularly through growth. They observed that businesses of widely varying industries and sizes nevertheless experienced similar problems and challenges at similar stages of development. Their model identified these key issues at five stages of growth, beginning with the struggle for Existence, followed by Survival and Success. Success, the stage at which the business is both profitable and stable, could lead to either disengagement by the owner or to Take-off, which if successful, could lead to Resource Maturity.

Kazanjian (1988) derived four distinct stages of growth from two case studies and argued that as a firm grows, its product and market changes lead to corresponding changes in problem management. He surveyed 105 high-technology firms, which self-categorized into one of the four stages of business growth – Conception and Development, Commercialization, Growth, and Stability – and identified major obstacles at each stage using ANOVA. Fluck et al. (1998) find that the contribution of the firm owner increases initially and then decreases in firms over 12 years old. The initial increase in the use of insider financing is explained by firm owners employing retained earnings for investment because of potential difficulties in raising external finance.

Firms often depend on informal sources of funding in the very early stages of their development. External sources, however, become more important as firms start expanding, and their availability can determine decisively the growth path of MSMEs.

MSMEs need to have access to appropriate finances throughout their life-cycle, from early-stage through seed and venture capital, credit guarantees to progress in their growth. But only a very limited number of innovative MSMEs with clear growth potential can access finance. Therefore, to address this problem, the conceptual model developed in this study includes the impact of the life cycle of MSMEs in accessing finance.

Access to Finance

The problem of accessing the finance by MSMEs in general, and the theoretical recognition that finance gaps will exist for firms, is traced back to the theory of imperfect information in capital markets (Stiglitz and Weiss 1981). From the lender's perspective (or supply-side), banks have difficulty differentiating between good (high quality) and bad (low quality) loan applicants. As a result, banks are likely to adopt more stringent lending policies favoring those who can provide more collateral assets, or who have a more established credit record. In other words, banks have to adopt credit rationing measures to minimize problems from adverse selection and moral hazard. The potential for credit rationing is thought to be greater for small firms. On the demand side, as argued by Petersen and Rajan (1994), the amount of information that banks could acquire is usually much less in the case of small firms, because banks have very little data concerning these firms' managerial capabilities and investment opportunities. The extent of credit rationing to small firms may additionally occur just because they're not typically well-collateralized (Gertler and Gilchrist 1994). Torre et al. (2010) also attribute hindrances to SMEs' access to finance to ''opaqueness", meaning that it is difficult to ascertain if firms can pay (have viable projects) and the willingness to pay (due to moral hazard). This opaqueness notably undermines lending from institutions that interact in more impersonal or arms-length financing, requiring hard, objective, and transparent information (Hyytinen and Pajarinen, 2008).

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The problem of a mismatch between the supply of funds and the demand for funds leads to the notion of "financial gaps" (Industry Canada, 2002). The gaps exist if particular categories of firms that ought to receive financing are systematically unable to obtain it, despite a willingness to pay higher interest rates, indicating market failure particularly if such lending opportunities are profitable. A mismatch between demand for finance and supply of finance can arise due to asymmetry in information and consequent difficulty in distinguishing between good and bad loans, leading to the application of credit rationing. This is potentially more severe for MSMEs than for large enterprises. In emerging market economies there's also a greater likelihood of Demand is greater than the Supply of loans as a result of the implementation of credit rationing. Access to finance is an essential factor for firms, and especially MSMEs to maintain their daily business operations as well as to achieve long term investment opportunities and development targets. MSMEs are denied access to finance due to their Firm Attributes, Financial problems, financing decision and also due to the stages of the life cycle. Therefore, the conceptual model developed in this study explains the impact of all these constructs on Access to Finance.

Impact of Firm Attributes, Financial Obstacles, Sources of Finance / Financing Decision, Life Cycle of MSME on Access to Finance

It is evident from the literature that Firm attributes, Financial Obstacles, Financing decisions and Life Cycle of MSME are key constructs in determining the Access to Finance. Therefore it can hypothesize that

H1: Impact of Firm Attributes on Access to Finance.

H2: Impact of Financial Obstacles on Access to Finance.

H3: Impact of Sources of Finance / Financing Decision on Access to Finance.

H4: Impact of different stages of the life cycle of MSME on Access to Finance.

MSME Performance

Accessibility to finance is a need for all businesses. Lack of access to finance has been identified as one of the major constraints to small business growth, (Carpenter et al, 2002). There is a strong relationship between access to finance and the performance of MSMEs. The inaccessibility of credit and capital is a major impediment to the development of MSMEs, particularly because it prevents them from acquiring the new technology that would make them more productive and more competitive. The literature review on Finance and accounting evaluates MSME performance by applying financial ratios such as profitability ratios, debt ratios, market ratios, and liquidity ratios, yet these are just the last performance indicators, as they are in fact, influenced by how firms perform in terms of their efficiency and productivity, and how inputs and product prices change (Amornkitvikai & Harvie, 2016). MSMEs' performance can also be measured using objective, subjective and operational measures (Harash, Suhail, & Jabbar, 2014).

Vanacker, Collewaert, and Zahra (2016) relying on longitudinal data from 1,62,633 European entities across 26 countries found evidence that slack financial resources (more than the required minimum level for operational purposes) enhanced the entity's performance level. However, excess cash resources – which are usually viewed as easy to redeploy - benefit firm performance, especially when firms operate in countries with weaker creditor rights. Profitability is considered an important indicator of the performance of MSMEs who struggle for survival, on top of proving their creditworthiness and solvability to their financiers. Profitability is an excess of revenues over associated expenses for activity over a period, which is seen by the ratios like gross profit margin and pre-tax margin (Odongo, 2014). Though profitability ratios are important in measuring the performance of MSMEs, their measurements are difficult in most MSMEs because of the lack of proper documentation (Turyahebwa et al, 2013). Most of the MSMEs struggling to cover their debt cost which survives on loaned capital. The firms are using their operating capital to cover their debt cost which in turn decreases their level of profitability (Popa & Ciobanu, 2014). Profitability measures help in assessing the success of a business undertaking. An undertaking that is not generating profits/revenue cannot survive (Bitila, 2014).

The firm is said to be much profitable, it can pay back the owners in the form of return on the investment made. The solvability ratio measures the creditworthiness of the firm and determines the constraints on cash management and hence decrease profits (Popa & Ciobanu, 2014). The solvency position of the company determines the company's ability to pay all financial obligations if all assets are sold or continue viable operations after financial adversity. Availability of finance determines the capacity of an enterprise in several ways like the choice of technology, access to essential resources, and access to markets, which in turn greatly influences the viability and success rate of a business (Mugunchu, 2013).

The MSMEs with better access to finance leads to higher productivity and profitability within an economy. The MSMEs which do not have access to external funds due to stringent terms and conditions of the bankers and financiers tend to tie to their credit and investment, this leads to the possibility that capacity building is seriously impaired. The short-term loans are not conducive to greater productivity while long-term loans may lead to improvements in productivity. (Nderitu & Githinji, 2015). The literature reviewed in this section suggests that access to and availability of finance plays a pivotal role in the performance of MSMEs.

Impact of Access to Finance on MSME Performance

It is evident from the literature that Access to Finance is the key construct in determining the MSME Performance. Therefore it can hypothesize that

H5: Access to Finance has a positive impact on MSME Performance.

IMPLICATIONS & CONCLUSION

This paper provides a basic conceptual framework that could be useful in encouraging MSMEs' performance by considering some of the key constructs affecting MSMEs development. The difficulties that MSMEs encounter when trying to access finance can be due to a greater range of reasons like firm characteristics, financial challenges, financing decisions, characteristics of the business, entrepreneurs' skills and experience, etc. Other may be due to inadequate financial problems and services, gaps in the legal framework, lack of information on both banks and MSMEs side. The start-up and very young enterprises are avoided by the banks in providing finance, because these enterprises typically lack sufficient collateral of firms whose activities offer the possibilities of high return, but at substantial risk or loss (Beck et al, 2008). Due to the level of risk involved in lending money to MSMEs, interest rates for loans from banks are high, most financial institutions are reluctant to offer loans to MSMEs. It is, therefore, necessary to conduct a study and investigate the effect of access to finance on financial performance. The Conceptual model proposed in this study will, therefore, seeks to bridge this gap by investigating the effect of accessibility of finance on the financial performance of MSMEs during different stages of their Life Cycle in India.

In conclusion, this study relies heavily on extant literature work. In this manner, in light of the findings from this paper, it is proposed that the future studies ought to include empirical research that would include subjective research deliberately to investigate perspectives and encounters of MSMEs. This is important to elicit detailed information about major financial obstacles faced by MSMEs in accessing finance during their life cycle specifically in India. Likewise, the quantitative methodology is also essential to gather a substantial amount of information for further examination and correlation between the potential findings from the exploratory research.

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