



A STUDY ON EXPLORING THE SCOPE AND OPPORTUNITIES IN MSME FINANCING IN INDIA

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Abstract - Micro, Small, and Medium Enterprises are the backbone of the Indian economy, contributing substantially to employment, GDP, manufacturing, and exports, but are facing a number of issues in availing bank finance due to a shortage of collateral, complex procedures, and a lack of awareness of government schemes such as PMMY, CGTMSE, and Stand-Up India. This study aims to assess the level of awareness, bank finance accessibility, financial literacy, major issues, satisfaction level, and future requirements of MSME owners through a survey of 160 respondents, focusing on demographic factors such as business age and revenue. The use of descriptive-inferential design with multiple regression analysis to examine the data establishes that awareness and accessibility are positive predictors of financial literacy, despite their negative relationship with income level. Managerial implications of this study for banks are to increase their awareness campaigns, improve accessibility of online lending options such as Jan Samarth and TReDS, and create AI tools for credit scoring to promote economic growth, particularly for women entrepreneurs in the service sector of micro enterprises in India.

Keywords: MSME financing, financial literacy, credit accessibility, awareness schemes, regression analysis, banking challenges

I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are playing a vital role in the growth and development of the Indian economy. MSMEs are the second-largest source of employment in India after the agricultural sector, providing employment to 32.82 crores people through more than 7.47 crores enterprises. MSMEs contribute almost 31% to India's Gross Domestic Product (GDP), 35.4% to the country's manufacturing output, and almost 49% to India's exports.

However, MSMEs are facing many problems in accessing adequate financial resources. MSMEs are suffering from the lack of collateral security and the complex loan procedures.

Moreover, the lack of awareness regarding financial schemes is also a major problem for MSMEs. To address the problems and needs of MSMEs, the Government has launched many initiatives such as Pradhan Mantri Mudra Yojana (PMMY), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), and Stand-Up India. This study aims at exploring the scope of MSME financing in India.

II. OBJECTIVES OF THE STUDY

Primary Objectives:

- To measure the level of awareness among MSME owners regarding the financing schemes provided by the government.
- To measure the accessibility of bank finance for MSME owners.
- To measure the financial literacy of MSME owners regarding the repayment of credit and loans.
- To identify the major challenges faced by MSME owners in accessing finance.
- To measure the satisfaction level of MSME owners regarding MSME loan services.
- To identify the future financing needs of MSME owners.

Secondary Objectives:

The secondary objectives of the study include the analysis of the demographic factors such as years of operation and revenue, along with the primary objectives. The study also aims to evaluate the differences in financial literacy and satisfaction based on the type of business. In addition, the study aims to identify the key challenges faced by the owners of the MSMEs in accessing finance and rank the challenges accordingly.

III. SCOPE OF THE STUDY

The study aims to evaluate the MSME finance market in India through market survey methods, which will cover the sources of finance, finance accessibility, finance trends like technology

innovations, credit challenges, gaining insights from owners, lenders, and policymakers, and finally solutions for the gap in demand and supply.

The study will cover MSMEs in manufacturing, services, and emerging sectors, and will cover urban and rural areas to provide a wider perspective of MSME finance opportunities in India.

IV. LIMITATIONS OF THE STUDY

- The study is region-specific, which is not suitable for generalization over the country as a whole.
- The study is based on questionnaire responses that may be inaccurate due to respondent bias.
- It is based on registered and willing MSMEs, not on reluctant ones; it is based on general trends rather than bank-wise data; and the findings may change with the change in policies and markets.

V. REVIEW OF LITERATURE

NITI Aayog (2026), "Achieving Efficiencies in MSME Sector Through Convergence of Schemes" More than 20 schemes, e.g., MUDRA, CGTMSE, show duplication, achieving only 40% of the eligible population, leaving a gap of Rs. 25 lakh crore. Convergence of schemes through Udyam portal has the potential to increase the disbursal of funds by 25%. Focus on women/SC-ST enterprises shows a gap of 70% in awareness level. Budget 2026 allocations show a focus on technology interventions to achieve last-mile delivery.

Dun & Bradstreet (2026), "MSME Sampark Report 4" reveals that there are around 7.5 crore registered MSMEs with access to almost Rs. 4.5 lakh crore of credit. Moreover, the percentage of NPAs has reduced to 4.2%. It is also mentioned that export-oriented MSMEs receive double the support through ECGC schemes. It is mentioned that women-led MSMEs constitute 14% of the total MSME sector. However, the loan rejection ratio for women-led MSMEs is around 30%. In addition to the above facts, the Union Budget 2026 has proposed a fund of Rs. 10,000 crore for the growth and financing of MSMEs.

Sharma (2026) in his study "Financial Inclusion and MSME Finance Gap in India," it was found that there is still a credit gap of 45 lakh crores in the MSME sector despite the presence of over 100 schemes by the government. The Jan Samarth platform has also helped in enhancing access to financial schemes for MSMEs. However, the level of digital literacy of MSME owners is very low at just 55%. Digital platforms such as UPI and MSME Samadhan have increased loan disbursements by almost 20%. There are also regional and gender gaps in access to finance, with 25% of southern states having access to finance compared to 8% in the north-east

region of India. The study concludes that AI is required to be used for credit assessment to reduce the rejection rate for MSMEs.

Sahoo & Pattnaik (2025), "Bridging the Credit Gap: An Analytical Study of MSME Financing in Odisha, India" - The research conducted on 200 MSMEs in Odisha revealed that 87% of businesses rely on informal credit, which charges interest rates between 24% and 36%, even though the state received ₹20,000 crore in Priority Sector Lending. A majority, specifically 65%, of these businesses encounter problems related to collateral such as land or gold, and the average time taken to resolve these issues is 45 days. Public sector banks take up 75% of the total time to release loans, whereas NBFCs and fintech companies manage to disburse funds in just 7 days. During the recovery phase from the COVID-19 pandemic, the Emergency Credit Line Guarantee Scheme (ECLGS) provided support to 30% of the businesses in Odisha.

Dvara Research (2024), "State of Digital Lending towards MSMEs in India" it states that Digital lenders are using AI and alternative data such as GST returns and transaction histories to lend to underserved MSMEs. It has shown 3x growth in adoption since 2022, despite limited penetration at 15%. This is because RBI has restricted data privacy. However, the digital lending market size is expected to reach ₹5 lakh crores by 2027 as fintech and banks improve partnerships. Standardized credit scores are the key.

VI. THEORETICAL BACKGROUND

The study presents the factors that improve financial literacy in the context of bank finance for MSME owners. It indicates that the owners' awareness of finance, the accessibility of finance, the challenges in securing finance, the owners' satisfaction with finance services, and the owners' needs in the future are the independent variables that improve financial literacy. The owners' awareness of finance enables them to be aware of the financial schemes and loan facilities provided by the bank. The owners' accessibility of finance enables businesses to easily access loan facilities from the bank. The challenges in securing finance from the bank improve the owners' financial literacy. The owners' satisfaction with finance services depends on the experience of MSME owners in dealing with the banking institution. The owners' needs in the future improve the owners' financial literacy.

The Figure showing the Conceptual Model of the study

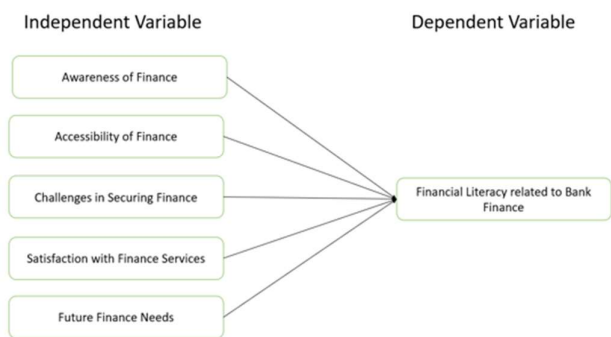


Fig. No.1 Conceptual Model

VII. RESEARCH DESIGN

The research design that is being used in this study is descriptive and inferential research design with the help of a structured questionnaire survey among the owners of 160 MSMEs to measure the level of awareness, accessibility, financial literacy, challenges faced, satisfaction level, and requirement of funds in the future. The analysis of the primary data is being carried out using multiple regression analysis with independent variables such as years in business and revenue being modeled against the independent variables such as awareness and accessibility to determine the level of financial literacy with the help of ANOVA test.

VIII. DEMOGRAPHIC PROFILE OF RESPONDENTS

Table No: 1 Represent Demographic Profile of Respondents

Variable	Category	Frequency	Percentage (%)
Age	Below 25	26	16.3
	25-34	12	7.5
	36-45	78	48.8
	Above 45	44	27.5
	Total	160	100.0
Gender	Male	66.3	66.3
	Female	33.1	33.1
	Others	.6	.6
	Total	160.0	100.0
Education	Highschool	71	44.4
	Undergraduate	64	40.0
	Postgraduate	25	15.6
	Total	160	100.0
Types of Business	Micro	110	68.8
	Small	24	15.0
	Medium	26	16.3
	Total	160	100.0
Business Sector	Manufacturing	27	16.9
	Services	133	83.1
	Total	160	100.0
No. of Years in Business	Less than 1 Year	14	8.8
	1 – 3 Years	88	55.0
	4 – 7 Years	26	16.3
	More than 7 Years	32	20.0
	Total	160	100.0
Annual Business Revenue	Less than 50 Lakh	21	13.1
	50 Lakh – 1 Crore	78	48.8
	1 Crore – 5 Crore	27	16.9
	More than 5 Crore	34	21.3
	Total	160	100.0

The survey targets MSME owners who are primarily middle-aged males in micro service-oriented businesses with moderate experience and revenue. This is similar to India’s dynamic MSME sector, which focuses on service-oriented growth and financing issues. The diversity of the sample provides insight into credit requirements and scaling, as well as issues of women’s inclusion

IX. DATA ANALYSIS

MULTIPLE REGRESSION FOR THE DEMOGRAPHIC VARIABLE (Number of years in Business, Annual Business Revenue) and Independent Variable (Awareness of Financial Schemes, Accessibility to Finance)

Null Hypothesis (H₀): There is no significant linear relationship between the independent variables (Number of Years in Business, Annual Business Revenue, Awareness of Financial Schemes, Accessibility to Finance) and the dependent variable (Financial Literacy Related to Bank Finance).

Alternative Hypothesis (H₁): There is a significant linear relationship between at least one of the independent variables (Number of Years in Business, Annual Business Revenue, Awareness of Financial Schemes, Accessibility to Finance) and the dependent variable (Financial Literacy Related to Bank Finance).

Model Summary Table 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.550 ^a	.303	.285	.356

a. Predictors: (Constant), Accessibility Mean,

INTERPRETATION

The regression model shows a moderate positive relationship ($R = 0.550$) between the predictors and financial literacy. The **R Square value (0.303)** indicates that about 30.3% of the variation in financial literacy is explained by accessibility, years in business, awareness, and annual income. The **Adjusted R Square (0.285)** confirms the model’s reliability, while the standard error (0.356) suggests a moderate prediction error.

ANOVA Table 3

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.512	4	2.128	16.820	.000 ^b
	Residual	19.610	155	.127		
	Total	28.122	159			

Dependent Variable: Financial Literacy Mean

INTERPRETATION

The ANOVA results ($F = 16.820$, $Sig. = 0.000$) indicate that the regression model is statistically significant. This means that the predictors—accessibility, number of years in business, awareness, and annual income—collectively have a significant influence on financial literacy. Thus, the model effectively explains variations in the dependent variable.

Coefficients Table 4

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.300	.336		3.867	.000
	No of years in business	-.014	.038	-.030	-.365	.716
	Annual Income	-.123	.037	-.283	-3.316	.001
	Awareness Mean	.398	.088	.371	4.522	.000
	Accessibility Mean	.282	.072	.332	3.913	.000

a. Dependent Variable: Financial Literacy Mean

INTERPRETATION

The regression results show that **awareness ($\beta = 0.371$, $Sig. = 0.000$)** and **accessibility ($\beta = 0.332$, $Sig. = 0.000$)** have a strong and significant positive influence on financial literacy. **Annual income ($\beta = -0.283$, $Sig. = 0.001$)** has a significant but negative effect, suggesting higher income is associated with lower financial literacy. **Years in business ($\beta = -0.030$, $Sig. = 0.716$)** is not significant, indicating no meaningful impact. Overall, awareness and accessibility are the most important predictors of financial literacy.

X. MANAGERIAL IMPLICATIONS

- **Increase Awareness Programs:** Banks need to launch programs to increase the awareness level of schemes such as PMMY and CGTMSE so that MSME financial literacy improves and more MSMEs access formal financial systems.
- **Simplify Loan Procedure:** The loan application procedures need to be simplified so that the difficulties in accessing formal financial systems are reduced for MSMEs.
- **Digital Platforms:** Banks need to promote the use of digital platforms such as Jan Samarth so that loan applications are faster and more convenient.
- **AI-based Credit Scoring System:** The use of an AI-based credit scoring system needs to be implemented so that loan rejection rates are reduced.
- **Financial Products for Women MSMEs:** Banks need to launch special financial products for women MSMEs.
- **Customized Financial Products:** Banks need to launch loan products for new and service-oriented micro enterprises.

XI. CONCLUSION

The study has also highlighted that awareness and accessibility are significant factors in the development of financial literacy among MSMEs. Entrepreneurs who are aware of the financial schemes and facilities can easily access the formal banking



channels and take the best opportunities to grow their businesses. Although there are many government schemes and facilities, the MSMEs are still facing problems such as lack of awareness, complex loan facilities, and lack of financial knowledge. Therefore, it is the responsibility of the government and the financial institutions to take initiatives to grow the businesses of the reluctant MSMEs through digital platforms such as Udyam and help them grow to contribute to the economic development of the country.

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