

## ISSUES AND CHALLENGES WITH MSMEs OBTAINING FINANCIAL ASSISTANCE FROM BANKS DURING COVID-19

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### ABSTRACT

*The micro, small, and medium-sized business (MSMEs) industry has been acknowledged as the foundation of the economy. The micro, small, and medium enterprises (MSMEs) sector has been highlighted as one of the economic sectors affected by the COVID-19 pandemic due to the propensity for a lack of business capital resulting from decreasing income, which is consistent with the current drop in people's purchasing power. Due to the government's decision to lockdown during the COVID-19 pandemic, Indian banks were forced to reduce credit lines to commercial sectors. According to the explanation given above, it can be concluded that COVID-19 has a negative impact on lowering MSMEs' income levels, which in turn decreases MSMEs' capital in India. The modified questionnaire method was used to obtain the necessary information from 110 MSMEs using a convenience sample approach for this study. Descriptive statistics such as frequency counts and percentages were applied to analyze demographic data and research questions, while inferential statistics such as ANOVA and the T-test were also used to evaluate the stated hypotheses at the 0.05 level of significance. The study concluded that enterprises of all sizes, i.e., micro, small, and medium, faced similar challenges while obtaining finance from banks, but tenure of operation was an important factor in obtaining finance. Organizations operating for a longer duration received finance easily and on simple terms, but new organizations faced difficulty obtaining finance during COVID-19. There is also a significant difference in bank type, as availing loans from public-sector banks is quite easy as compared to private-sector banks.*

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**Keywords:** MSMEs, COVID-19, Financial Assistance, Indian Banking Sector, Loans.

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### Introduction

The micro, small, and medium-sized business (MSMEs) industry has been acknowledged as the foundation of the economy. For the nation's development, they serve as incubators for talent, creativity, and the entrepreneurial spirit. MSMEs have benefited our economy by generating jobs, which has increased the nation's gross domestic product (GDP). According to government statistics, MSMEs in India account for about 45% of all manufactured production, 30% of the country's GDP, and 40% of exports. Low investment, more job prospects, operational flexibility, fewer inequities, and import substitution are characteristics of the MSMEs sector. The primary obstacle to the expansion and development of this crucial sector of the Indian economy has been identified as the MSME sector's difficulty in securing appropriate and timely financing from organized sources.

The World Health Organization designated COVID-19 as a "public health emergency of international concern" on January 30, 2020. During the COVID-19 pandemic, all governments throughout the world implemented macroeconomic and fiscal support measures to avert a catastrophic economic collapse that would have had a significant negative impact on people's social, economic, and health lives. The present COVID-19 virus outbreak has hindered economic activity in a number of ways, including declining demand, supply chain disruptions, cancellation of export orders, and a scarcity of raw materials. The micro, small, and medium enterprises (MSMEs) sector has been highlighted as one of the economic sectors affected by the COVID-19 pandemic owing to the propensity for a lack of business capital

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resulting from decreasing income, which is consistent with the current drop in people's purchasing power. Additionally, the pandemic's impact on MSMEs' survival and income has made it harder for business players to repay loans by the maturity date. According to the studies, MSMEs have been on the front lines as customers stay at home, supply chains are disrupted, and the small-scale sectors that account for 70% of job prospects worldwide are under tremendous pressure. According to numerous studies, the majority of Indian businesses has been badly impacted and is currently dealing with numerous financial, distribution, and supply chain issues, which have reduced their profitability and sales. Due to the government's decision to lockdown during the COVID-19 pandemic, Indian banks were forced to reduce credit lines to commercial sectors. According to the explanation given above, it can be concluded that COVID-19 has a negative impact on lowering MSMEs' income levels, which in turn directly lowers MSMEs' capital in India.

### Review of Literature

**Ali & Husain (2014)** discussed the key issues facing MSMEs, including a lack of adequate and timely financing facilities, excessive credit costs, a lack of contemporary technology, a lack of research and innovations, inadequate training and skill development, and complex labor laws.

**Gupta et al. (2018)** discussed in their paper about the problems faced by MSMEs in the selected districts of Himachal Pradesh. The data were analyzed using a variety of procedures, including ratio analysis, one-way ANOVAs, the Chi-Square test, factor analysis, etc. They discover that the three main factors impeding the expansion of MSMEs in the state of Himachal Pradesh are excessive collateral requirements, insufficient bank financing, and complicated procedures.

**Zaazou & Abdou (2020)** looked at how the pandemic affected Egypt's small- and medium-sized businesses (SMEs) and how these new enterprises handled the crisis as a whole. They discovered that business owners who supported a flexible culture and concentrated on making new investments in innovation were able to deal with COVID-19 pandemic issues and remain in business.

**Nufus et al. (2021)** analyzed that the loan distribution level that was utilized during the COVID-19 epidemic to provide operating capital support to micro, small, and medium-sized enterprises (MSMEs). The findings of this study revealed that while micro and small business loans are more resilient, the COVID-19 pandemic had a substantial detrimental influence only on medium-sized business loans.

**Prakash et al. (2021)** stated in their study that there are twelve significant potential obstacles, both endogenous and exogenous, that MSMEs may encounter, including issues with raw material availability, finances, labor force challenges, technology inefficiency, limited power and electricity, poor marketing, competition, knowledge-related issues, issues with government and administration, ineffective infrastructure, etc. The growth and promotion of MSMEs in emerging regions are hampered by these obstacles. According to the primary inquiry, many MSMEs believe that good government policy could help to lessen obstacles and issues.

**Ranjan (2021)** examined that unregistered businesses have difficulty obtaining loans through formal channels, whereas registered businesses can do so with ease. The regression analysis demonstrates that factors such as the quantity of skilled workers, the firm's registration, modernization, and environmental monitoring have a favorable influence on the production value of MSMEs.

### Problem Statement

MSMEs have the potential to significantly improve a nation's economy by expanding competencies and generating job opportunities. MSMEs still need to work towards obtaining timely and sufficient financing. The operational capacity of MSMEs is hampered by a lack of financing, particularly during COVID-19, which slows down their expansion. Because medium-sized enterprises are among those most impacted by the current COVID-19 pandemic, the government should work to assist micro, small, and medium-sized businesses by promoting loan distribution.

### Objectives of the Study

- To analyze issues and challenges in accessing bank finance for MSMEs during COVID-19

### Hypothesis

- H<sub>1</sub>:** There is a significant difference in obtaining financial assistance from banks during COVID-19 across different enterprise sizes.
- H<sub>2</sub>:** There is a significant difference in obtaining financial assistance from banks during COVID-19 across different tenures of operations for MSMEs.

**H<sub>3</sub>:** There is a significant difference in obtaining financial assistance from banks during COVID-19 across different types of banks.

### Research Methodology

The purpose of this study was to examine the issues and challenges associated with MSMEs obtaining financial assistance from banks during COVID-19. The modified questionnaire method was used to obtain the necessary information from 110 MSMEs using a convenience sample approach for this study. Google Forms has been used to deliver the questionnaire. This questionnaire obtained information using a five-point Likert scales ranging from strongly agree (5) to strongly disagree (1). The SPSS V22 statistical software was used to analyze the collected data. Descriptive statistics such as frequency counts and percentages were applied to analyze demographic data and research questions, while inferential statistics such as an ANOVA and T-test were also used to evaluate the stated hypotheses at the 0.05 level of significance.

### Data Analysis & Interpretation

**Table 1: Presentation of Demographic Data**

	Background	Frequency	Percentage (%)
Type of Ownership	Sole Proprietorship	30	27.3
	Family-owned business	26	23.6
	Partnership	22	20.0
	Company	4	3.6
	Others	28	25.5
Enterprise Size	Micro	27	24.5
	Small	58	52.7
	Medium	25	22.7
Kind of Organization	Manufacturing	65	59.1
	Service	45	40.9
Location	Urban	47	42.7
	Semi-Urban	59	53.6
	Rural	4	3.6
Tenure of Operation	Less than 1 year	7	6.4
	1 to 5 years	19	17.3
	6 to 10 years	26	23.6
	11 to 15 years	34	30.9
	Above 15 years	24	21.8
Request for a Loan from Bank Type	Public Sector Bank	62	56.4
	Private Sector Bank	48	43.6

### Interpretation

27.3% of the 110 respondents were sole proprietorships, 23.6% were family-owned businesses, 20.0% were partnerships, 3.6% were companies, and 25.5% were others. 24.5% of the total respondents were microenterprises, 52.7% were small enterprises, and 22.7% were medium enterprises. 59.1% of total MSMEs were manufacturing enterprises, and 40.9% were service enterprises. The majority of MSMEs were situated in semi-urban areas, i.e., 53.6%, 42.7% in urban areas, and the remaining 3.6% in rural areas. In terms of tenure of operations, 6.4% are running less than 1 year, 17.3% are running from 1 to 5 years, 23.6% are running from 6 to 10 years, 30.9% are running from 11 to 15 years, and 21.8% are running above 15 years. 56.4% of total MSMEs requested loans from public sector banks, and the remaining 43.6% asked for loans from private sector banks.

**Table 2: Reliability Statistics**

Cronbach's Alpha	N of Items
.902	10

The above table illustrates the Cronbach's alpha test of the variables' reliability. According to Cronbach's alpha, if the value is greater than 0.60, the variable's reliability is positive. All of the variables have a high degree of reliability because the result is 0.902, which is greater than 0.60.

**Table 3: Output for One-Way ANOVA (Enterprise Size)**

		Sum of Squares	df	Mean Square	F	Sig.
Online Loan Application	Between Groups	.181	2	.091	.114	.893
	Within Groups	85.309	107	.797		
	<b>Total</b>	<b>85.491</b>	<b>109</b>			
Assistance in Documentation	Between Groups	1.776	2	.888	.900	.410
	Within Groups	105.579	107	.987		
	<b>Total</b>	<b>107.355</b>	<b>109</b>			
Simple Collateral	Between Groups	1.164	2	.582	.660	.519
	Within Groups	94.327	107	.882		
	<b>Total</b>	<b>95.491</b>	<b>109</b>			
Reasonable Interest Rate	Between Groups	5.895	2	2.947	2.814	.034
	Within Groups	112.069	107	1.047		
	<b>Total</b>	<b>117.964</b>	<b>109</b>			
Approval of Full Loan Amount	Between Groups	1.836	2	.918	.930	.398
	Within Groups	105.627	107	.987		
	<b>Total</b>	<b>107.464</b>	<b>109</b>			
Flexible Loan Tenure	Between Groups	3.493	2	1.747	1.835	.165
	Within Groups	101.861	107	.952		
	<b>Total</b>	<b>105.355</b>	<b>109</b>			
Quick Disbursement	Between Groups	3.401	2	1.701	2.337	.102
	Within Groups	77.872	107	.728		
	<b>Total</b>	<b>81.273</b>	<b>109</b>			
Simple Approval Process	Between Groups	35.291	2	17.645	14.476	.000
	Within Groups	130.427	107	1.219		
	<b>Total</b>	<b>165.718</b>	<b>109</b>			
Minimum Documentation	Between Groups	14.309	2	7.154	7.859	.001
	Within Groups	97.409	107	.910		
	<b>Total</b>	<b>111.718</b>	<b>109</b>			
Govt-Sponsored Bank Credit	Between Groups	8.501	2	4.251	4.416	.014
	Within Groups	102.989	107	.963		
	<b>Total</b>	<b>111.491</b>	<b>109</b>			

**Interpretation**

Table 3 shows that there were several financial challenges, namely: online loan application ( $F = .114$ ,  $p = .893$ ), assistance in documentation ( $F = .900$ ,  $p = .410$ ), simple collateral ( $F = .660$ ,  $p = .519$ ), reasonable interest rate ( $F = 2.814$ ,  $p = .034$ ), approval of the full loan amount ( $F = .930$ ,  $p = .398$ ), flexible loan tenure ( $F = 1.835$ ,  $p = .165$ ), quick disbursement ( $F = 2.337$ ,  $p = .102$ ), simple approval process ( $F = 14.476$ ,  $p = .000$ ), minimum documentation ( $F = 7.859$ ,  $p = .001$ ), and government-sponsored bank credit ( $F = 4.416$ ,  $p = .014$ ). Since the P values of the variables Reasonable Interest Rate, Simple Approval Process, Minimum Documentation, and Government-Sponsored Bank Credit are less than 0.05, it is concluded that there is a significant difference in obtaining financial assistance from banks during COVID-19 across different enterprise sizes on the above-mentioned variables only.

**Table 4: Output for one-way ANOVA (Tenure of Operation)**

		Sum of Squares	df	Mean Square	F	Sig.
Online Loan Application	Between Groups	28.029	4	7.007	12.804	.000
	Within Groups	57.462	105	.547		
	<b>Total</b>	<b>85.491</b>	<b>109</b>			
Assistance in Documentation	Between Groups	48.268	4	12.067	21.443	.000
	Within Groups	59.087	105	.563		
	<b>Total</b>	<b>107.355</b>	<b>109</b>			
Simple Collateral	Between Groups	24.924	4	6.231	9.271	.000
	Within Groups	70.567	105	.672		
	<b>Total</b>	<b>95.491</b>	<b>109</b>			

Reasonable Interest Rate	Between Groups	36.684	4	9.171	11.847	.000
	Within Groups	81.280	105	.774		
	<b>Total</b>	<b>117.964</b>	<b>109</b>			
Approval of Full Loan Amount	Between Groups	41.608	4	10.402	16.585	.000
	Within Groups	65.856	105	.627		
	<b>Total</b>	<b>107.464</b>	<b>109</b>			
Flexible Loan Tenure	Between Groups	32.957	4	8.239	11.950	.000
	Within Groups	72.397	105	.689		
	<b>Total</b>	<b>105.355</b>	<b>109</b>			
Quick Disbursement	Between Groups	20.041	4	5.010	8.592	.000
	Within Groups	61.231	105	.583		
	<b>Total</b>	<b>81.273</b>	<b>109</b>			
Simple Approval Process	Between Groups	40.147	4	10.037	8.392	.000
	Within Groups	125.572	105	1.196		
	<b>Total</b>	<b>165.718</b>	<b>109</b>			
Minimum Documentation	Between Groups	31.596	4	7.899	10.352	.000
	Within Groups	80.122	105	.763		
	<b>Total</b>	<b>111.718</b>	<b>109</b>			
Govt-Sponsored Bank Credit	Between Groups	36.143	4	9.036	12.592	.000
	Within Groups	75.348	105	.718		
	<b>Total</b>	<b>111.491</b>	<b>109</b>			

### Interpretation

Table 4 shows that there were several financial challenges, namely: online loan application ( $F = 12.804$ ,  $p = .000$ ), assistance in documentation ( $F = 21.443$ ,  $p = .000$ ), simple collateral ( $F = 9.271$ ,  $p = .000$ ), reasonable interest rate ( $F = 11.847$ ,  $p = .000$ ), approval of the full loan amount ( $F = 16.585$ ,  $p = .000$ ), flexible loan tenure ( $F = 11.950$ ,  $p = .000$ ), quick disbursement ( $F = 8.592$ ,  $p = .000$ ), simple approval process ( $F = 8.392$ ,  $p = .000$ ), minimum documentation ( $F = 10.352$ ,  $p = .000$ ), Govt-Sponsored Bank Credit ( $F = 12.592$ ,  $p = .000$ ). Since the P values of all the variables are less than 0.05, the null hypothesis  $H_0$  is rejected at the 5% level of significance, and it is concluded that there is a significant difference in obtaining financial assistance from banks during COVID-19 across different tenures of operations for MSMEs.

**Table 5: Output for Independent Samples Test (Loan from the Type of Bank)**

	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
						Lower	Upper
Online Loan Application	3.024	108	.003	.497	.164	.171	.822
Assistance in Documentation	2.741	108	.007	.508	.185	.141	.875
Simple Collateral	5.922	108	.000	.930	.157	.619	1.241
Reasonable Interest Rate	3.640	108	.000	.690	.190	.314	1.066
Approval of Full Loan	3.481	108	.001	.633	.182	.273	.994
Flexible Loan Tenure	2.899	108	.005	.530	.183	.168	.893
Quick Disbursement	4.553	108	.000	.696	.153	.393	.998
Simple Approval Process	1.875	108	.063	.440	.234	-.025	.904
Minimum Documentation	4.033	108	.000	.735	.182	.374	1.097
Govt-Sponsored Bank Credit	2.622	108	.010	.497	.189	.121	.872

### Interpretation

Table 5 shows that there were several financial challenges, namely: online loan application ( $t = 3.024$ ,  $p = .003$ ), assistance in documentation ( $t = 2.741$ ,  $p = .007$ ), simple collateral ( $t = 5.922$ ,  $p = .000$ ), reasonable interest rate ( $t = 3.640$ ,  $p = .000$ ), approval of the full loan amount ( $t = 3.481$ ,  $p = .001$ ), flexible loan tenure ( $t = 2.899$ ,  $p = .005$ ), quick disbursement ( $t = 4.553$ ,  $p = .000$ ), simple approval process ( $t = 1.875$ ,  $p = .063$ ), minimum documentation ( $t = 4.033$ ,  $p = .000$ ), Govt-sponsored bank credit ( $t = 2.622$ ,  $p = .010$ ). Since the P value of all the variables except the simple approval process ( $p = .063$ )

is less than 0.05, the null hypothesis  $H_0$  is rejected at the 5% level of significance, and it is concluded that there is a significant difference in obtaining financial assistance from banks during COVID-19 across different types of banks.

### Findings

Ten major factors were taken into account to analyze issues and challenges with MSMEs obtaining financial assistance from banks during COVID-19, namely: online loan application, assistance in documentation, simple collateral, reasonable interest rate, approval of the full loan amount, flexible loan tenure, quick disbursement, simple approval process, minimum documentation, and government-sponsored bank credit. The study concluded that enterprises of all sizes, i.e., micro, small, and medium, faced similar challenges while obtaining finance from banks, but tenure of operation was an important factor in obtaining finance. Organizations operating for a longer duration received finance easily and on simple terms, but new organizations faced difficulty obtaining finance during COVID-19. There is also a significant difference in bank type, as availing loans from public sector banks was quite easy as compared to private sector banks.

### Conclusion

The declining demand in the economy is one of the greatest issues facing MSMEs during COVID-19. All of the MSMEs' primary manufacturing sectors had negative growth throughout the pandemic. MSMEs have a difficult time getting credit. The incapacity of SMEs to produce collateral and other documents required by banks, such as audited financial statements, along with the high cost of loans in terms of high interest rates, make it incredibly difficult to acquire bank loans, as revealed by the study. Banks often avoid financing start-ups and very young businesses because they typically lack enough collateral from companies whose operations have the potential to generate great returns but come with significant risk or loss. Bank loans have high interest rates because giving money to MSMEs carries a significant level of risk, and most financial institutions are hesitant to do so. Because medium-sized firms are also among the industries most negatively impacted by the present COVID-19 pandemic, the authors recommend that the government work to assist micro, small, and medium-sized businesses by encouraging loan distribution. During the COVID-19 pandemic, the government must be able to issue policies that can aid MSMEs.

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