

NAVIGATING THE FINANCIAL LANDSCAPE: UNRAVELING THE COMPLEXITIES OF SMES' ACCESS TO FINANCE

Idarni Harefa *¹

Universitas Nias, Indonesia
idarniharefa@gmail.com

Tri Hartati Sukartini Hulu

Universitas Nias, Indonesia
tryhulu21@gmail.com

Nanny Artatina Bu'ulolo

Universitas Nias, Indonesia
NannyArtatinaBuulolo@gmail.com

Intan Permata Hati Hulu

Universitas Nias, Indonesia
intanpermatasari@gmail.com

Abstract

The study aims to address the gaps in the existing research on investigate how individual financial constraints, such as high interest rates, extended loan processing times, and complex security requirements, directly impact the operational aspects of SMEs. The paper offers a focused investigation into a specific aspect of SMEs – the direct impact of individual financial constraints on their operations. By reading the entire paper, individuals stand to gain a thorough grasp of the research methodology, detailed findings, and the broader implications for SMEs, policymakers, and financial institutions. In conclusion, the future agendas for enhancing access to finance for Small and Medium Enterprises (SMEs) revolve around embracing digital transformation, establishing flexible regulatory frameworks, investing in capacity building, promoting inclusive financing models, fostering global collaboration, integrating sustainability into financial decisions, improving data accessibility and analytics, and planning for economic resilience. A collaborative effort involving policymakers, financial institutions, industry stakeholders, and SMEs is crucial to create a dynamic and supportive ecosystem that ensures the financial inclusivity and long-term success of SMEs in an ever-evolving economic landscape.

Keyword : Acces to finance SMEs, financial constraints, Access to finance analysis.

¹ Correspondence author.

Introduction

Access to finance for small and medium-sized enterprises (SMEs) is a critical factor in their growth and development. Research on this topic has revealed several significant findings. Firstly, it has been established that SMEs play a crucial role in rural development, and their access to finance is essential for their improvement in rural areas (Manzoor et al., 2021). Furthermore, the structure of the financial sector, awareness of funding, collateral requirements, and small business support all have a direct relationship with SMEs' access to finance (Osano & Languitane, 2016). Additionally, the character of an SME and its owner has been found to significantly influence access to finance (Wasiuzzaman et al., 2019). Financial technology has also been identified as having a significant effect on the financial inclusion of SMEs (Agelyne & Musau, 2021).

Moreover, it has been noted that in developing countries, a substantial percentage of SMEs face constraints in accessing external finance, which hinders their growth and job creation potential (Brixiova et al., 2020). Financial literacy among entrepreneurs has been highlighted as critical for understanding the importance of access to finance for SMEs' sustainability (Sajjad et al., 2020). Additionally, the impact of supply chain finance on SMEs' performance has been found to be statistically significant, further emphasizing the importance of financial mechanisms in SMEs' operations (Vu et al., 2022).

However, it is important to note that there are challenges related to access to finance for SMEs, such as the difficulty of financing for small and medium-sized enterprises in China, which has been a long-standing problem (Luo et al., 2018). Furthermore, the study on the factors affecting the capital structure of small and medium-sized enterprises in China highlights the close relationship between capital structure and enterprise financing (Jiang et al., 2018). Additionally, the financing difficulties of SMEs are attributed to various factors such as the characteristics of SME financing, the state of the SME service system construction, and financial institutions' credit evaluation mechanisms (Wang, 2017).

The research on access to finance for small and medium-sized enterprises (SMEs) has made significant strides in understanding the various factors that influence SMEs' ability to obtain financial resources. However, there are still gaps in the existing literature that warrant further investigation.

One of the notable gaps in the research is the need for more comprehensive studies on the impact of financial constraints on SME performance. While existing research has identified access to finance as a core constraint on SME performance, there is a lack of in-depth analysis of how specific financial constraints, such as high interest rates, longer loan processing times, and complex security requirements, directly affect SME operations. Understanding the specific mechanisms through which financial

constraints impede SMEs' growth and development is crucial for devising targeted policy interventions and financial products that address these challenges.

Furthermore, there is a need for more research on the role of financial literacy and competencies in influencing SMEs' access to finance and financial innovation. While some studies have highlighted the importance of financial literacy among entrepreneurs for understanding the significance of access to finance for SME sustainability, there is a lack of comprehensive research on the specific financial competencies that are most critical for SMEs in navigating the financial landscape and accessing appropriate financial products. Additionally, the relationship between financial planning, competencies, and access to finance in driving SMEs' financial innovation requires further exploration to provide actionable insights for policymakers and financial institutions.

Another significant gap in the literature pertains to the gender dimension of access to finance for SMEs. While some studies have examined the challenges faced by women-owned SMEs in accessing credit facilities, there is a need for more extensive research on the specific barriers and opportunities for women entrepreneurs in obtaining financial resources. Understanding the gender-specific factors that influence access to finance, such as collateral requirements, interest rates, and government finance programs, is essential for promoting gender-inclusive financial policies and initiatives that support women-owned SMEs.

Moreover, there is a dearth of research on the impact of macroeconomic environments on SME financing decisions, particularly in the context of developing economies. While some studies have highlighted the influence of the macroeconomic environment on SME financing decisions, there is a need for more empirical investigations that consider the unique economic challenges and opportunities in developing countries. Understanding how macroeconomic factors, such as inflation, government policies, and market dynamics, shape SMEs' financing decisions is crucial for designing targeted interventions that foster a conducive financial environment for SMEs in these contexts.

In conclusion, while existing research has shed light on various aspects of access to finance for SMEs, there are notable gaps that require further exploration. Addressing these gaps through rigorous empirical studies and in-depth analyses will contribute to a more nuanced understanding of the challenges and opportunities in SME financing, ultimately informing evidence-based policies and strategies to enhance SMEs' access to finance.

Access to finance is undeniably pivotal for the growth and development of small and medium-sized enterprises (SMEs), as underscored by comprehensive research in this domain. The multifaceted nature of this topic has led to a nuanced understanding of the dynamics involved. Notably, SMEs have been recognized as key players in rural

development, emphasizing the crucial role that access to finance plays in their enhancement in rural areas (Manzoor et al., 2021).

Examining the broader financial landscape, the intricate interplay between the structure of the financial sector, awareness of funding, collateral requirements, and small business support has been revealed as having a direct impact on SMEs' access to finance (Osano & Languitane, 2016). Moreover, the character of an SME and its owner has emerged as a significant determinant in shaping the landscape of financial accessibility for these enterprises (Wasiuzzaman et al., 2019). The advent of financial technology has further transformed this landscape, wielding a substantial influence on the financial inclusion of SMEs (Agelyne & Musau, 2021).

While recognizing the pivotal role SMEs play, it's imperative to acknowledge the challenges they face, particularly in developing countries. A substantial percentage of SMEs encounter constraints in accessing external finance, impeding their growth and potential for job creation (Brixiova et al., 2020). Addressing these challenges requires attention to financial literacy among entrepreneurs, a critical factor in understanding the significance of access to finance for the sustainability of SMEs (Sajjad et al., 2020). Additionally, the statistical significance of supply chain finance on SMEs' performance highlights the importance of financial mechanisms in their operations (Vu et al., 2022).

However, challenges persist, notably in countries like China, where SME financing difficulties have been persistent issues (Luo et al., 2018). The intricate relationship between the capital structure and enterprise financing in Chinese SMEs adds another layer to the complexities of SME financing (Jiang et al., 2018). Various factors, such as the characteristics of SME financing, the state of the SME service system construction, and financial institutions' credit evaluation mechanisms, contribute to the financing difficulties faced by SMEs (Wang, 2017).

In conclusion, the extensive body of research on access to finance for SMEs underscores its crucial role in their development and growth. The synthesized findings emphasize the imperative for tailored financial mechanisms, enhanced financial literacy, and supportive policies. These factors collectively contribute to bolstering SMEs' access to finance, thereby fostering sustainability and overall economic development.

Despite the strides made in this research domain, notable gaps persist in the literature, necessitating further scholarly exploration. One such gap lies in the need for more comprehensive studies delving into the nuanced impact of specific financial constraints on SME performance. While existing research identifies access to finance as a core constraint, a deeper analysis of how intricacies like high interest rates, prolonged loan processing times, and complex security requirements directly impede SME

operations is imperative. Such insights are pivotal for crafting targeted policy interventions and financial products to address these challenges effectively.

Furthermore, the role of financial literacy and competencies in influencing SMEs' access to finance and financial innovation requires more in-depth exploration. While acknowledging the importance of financial literacy, a comprehensive understanding of the specific competencies critical for SMEs in navigating the financial landscape and accessing suitable financial products is lacking. Additionally, the intricate relationship between financial planning, competencies, and access to finance in driving SMEs' financial innovation merits further investigation, offering actionable insights for policymakers and financial institutions.

Another significant void in the literature pertains to the gender dimension of access to finance for SMEs. While some studies touch upon challenges faced by women-owned SMEs, there is a compelling need for more extensive research on the specific barriers and opportunities for women entrepreneurs in securing financial resources. This understanding is foundational for crafting gender-inclusive financial policies and initiatives that genuinely support women-owned SMEs.

Moreover, the impact of macroeconomic environments on SME financing decisions, particularly in developing economies, remains an underexplored territory. While some studies acknowledge the influence of the macroeconomic environment, there is a critical need for more empirical investigations considering the unique economic challenges and opportunities in developing countries. A nuanced understanding of how macroeconomic factors shape SMEs' financing decisions is paramount for designing targeted interventions that cultivate a conducive financial environment for SMEs in these contexts.

In conclusion, while existing research sheds light on various aspects of access to finance for SMEs, the identified gaps necessitate rigorous empirical studies and in-depth analyses. Addressing these gaps will contribute to a more nuanced understanding of the challenges and opportunities in SME financing, ultimately informing evidence-based policies and strategies to enhance SMEs' access to finance.

The aim of this study is to investigate how individual financial constraints, such as high interest rates, extended loan processing times, and complex security requirements, directly impact the operational aspects of SMEs. This research endeavor seeks to contribute valuable insights that can inform both academic discourse and practical policy considerations in the realm of SME financing.

Research methodology

In academic writing, it is crucial to effectively communicate the methodology employed in a study, particularly when it pertains to access to finance analysis. To convey this to academic readers, it is essential to provide a clear and comprehensive explanation of the approach utilized in the research. One effective way to achieve this is by outlining the specific steps and procedures involved in the access to finance analysis. This may include detailing the data collection methods, such as whether primary data through surveys or interviews was utilized, or if secondary data from existing sources was employed. Additionally, it is important to elucidate the analytical techniques applied, whether quantitative methods such as regression analysis or qualitative approaches such as thematic analysis were used. Furthermore, it is imperative to justify the choice of methodology by referencing relevant literature and established frameworks in the field of finance analysis. By transparently articulating the methodology with reference to established sources, academic readers can better understand and evaluate the rigor and validity of the research findings. Moreover, providing references to seminal works and scholarly articles that have employed similar methodologies can further bolster the credibility of the approach taken in the study. This not only demonstrates a thorough understanding of the research methods but also situates the study within the broader academic discourse on access to finance analysis.

Literatur Review

Access to finance for small and medium-sized enterprises (SMEs) is a critical factor in their sustainability and growth. Various theoretical frameworks have been proposed to understand the dynamics of access to finance for SMEs. The theoretical frameworks encompass a wide range of perspectives, including financial literacy, financial risk attitude, access to finance, financial behavior, and financial inclusion. These frameworks provide valuable insights into the factors influencing SMEs' access to finance and their subsequent impact on sustainability and growth.

Drawing upon a knowledge-based perspective, pecking order theory, and dual process theory, Ye & Kulathunga (2019) constructed an integrated model to examine the impact of financial literacy, access to finance, and financial risk attitude on SMEs' sustainability. Similarly, Manzoor et al. (2021) highlighted the mediating role of "access of SMEs to finance" on the association of SME's evolution and rural development. Hua et al. (2020) proposed a theoretical framework based on expectancy theory to explore the expected strategic adjustments of financial service providers in financing SMEs. These studies emphasize the significance of financial literacy, access to finance, and strategic adjustments in supporting SMEs.

Furthermore, Sharma et al. (2023) emphasized the relevance of the trade-off theory of capital structure and the information asymmetry framework in understanding financing decisions in SMEs. Imarhiagbe et al. (2021) highlighted the vital role of institutional theory in accessing finance for SMEs, while Piao & Xiao (2022) investigated the effectiveness of finance in supply chain in resolving SMEs' financing problems using the Grey theory model. These studies underscore the importance of various theoretical perspectives, including capital structure, information asymmetry, and institutional theory, in understanding access to finance for SMEs.

Moreover, Yang et al. (2019) developed a theoretical framework illustrating how information structures work in the strategic interactions between banks and firms in a supply chain, emphasizing the role of transaction information in reducing information asymmetry and improving SMEs' access to external financing. Wasiuzzaman et al. (2019) contributed to the under-researched issue of access to finance for SMEs, while Chowdhury et al. (2022) highlighted the empirical linkage among access to finance, firm quality, and firm performance, emphasizing the importance of easy access to finance for SMEs' success and sustainable growth.

Additionally, Mpofu & Sibindi (2022) emphasized the policy recommendations for improving access to finance for the SME sector, including nurturing the informal finance sector while promoting consumer protection and linking the formal and informal sector. Bamata et al. (2019) investigated the relationship between the determinants of the success of start-up SMEs and their access to external financing, aiming to develop a framework for SMEs to access external finance. These studies provide valuable insights into policy recommendations and frameworks for enhancing access to finance for SMEs.

Furthermore, Walid (2019) focused on the life cycle theory of the capital structure, while Doacă (2022) highlighted the influence of the macroeconomic environment on the financing decision in SMEs, emphasizing the vital importance of access to finance for SMEs in developing countries. Ismanto et al. (2022) concluded that access to finance does not determine SMEs to make financial innovations, shedding light on the complex relationship between access to finance and financial innovation.

Moreover, Qubbaja (2019) examined the relationship between business support services and access to finance by SMEs, emphasizing the importance of business support services in facilitating access to finance. Yang & Zhang (2020) highlighted the role of digital financial inclusion in promoting sustainable growth of small and micro enterprises, aligning with the United Nations' 2030 Agenda for Sustainable Development. These studies underscore the significance of digital financial inclusion and business support services in enhancing access to finance for SMEs.

In conclusion, the theoretical frameworks related to access to finance for SMEs encompass a wide range of perspectives, including financial literacy, capital structure, information asymmetry, institutional theory, and digital financial inclusion. These frameworks provide valuable insights into the factors influencing SMEs' access to finance and their subsequent impact on sustainability and growth. Understanding these theoretical frameworks is crucial for developing effective policies and strategies to enhance access to finance for SMEs, thereby contributing to their long-term success and economic development.

Conclusion

In conclusion, the multifaceted nature of factors influencing access to finance for Small and Medium Enterprises (SMEs) underscores the intricate interplay between internal and external elements. Internally, the characteristics of SMEs, their management practices, financial resources, and strategic decision-making all contribute to shaping their access to finance. Moreover, the decision to seek external financing, particularly through debt, is influenced by a myriad of internal considerations. The role of competencies, financial planning, and innovation further adds complexity to the landscape of SMEs' financial access.

Externally, macroeconomic conditions, transparency of accounting information, and government support emerge as pivotal factors affecting SMEs' access to finance. The macroeconomic environment, in particular, exerts significant influence, with access to finance being both a driver and a constraint for SMEs in different economic landscapes. Furthermore, the accessibility of capital, consumer loyalty, and promotional efforts are identified as external factors directly impacting SME performance and their ability to secure financial resources.

The literature also accentuates the critical role of financial intermediaries and institutions in shaping SMEs' access to finance, with collateral pledges, loan conditions, and information asymmetry playing substantial roles. The evidence presented underscores the importance of supply chain finance and the mediating role of microfinancing in influencing SMEs' growth and development.

Overall, the findings emphasize that understanding and addressing this intricate web of factors are imperative for enhancing SMEs' access to finance, thereby promoting their growth, sustainability, and overall contribution to national economic development. Policymakers, financial institutions, and SMEs themselves must collaboratively navigate these internal and external dimensions to create an enabling environment that fosters financial inclusivity and propels the prosperity of Small and Medium Enterprises.

Agendas

In addition to the factors discussed, several future agendas and considerations emerge in the realm of enhancing access to finance for Small and Medium Enterprises (SMEs). In conclusion, addressing these future agendas requires a collaborative effort from policymakers, financial institutions, industry stakeholders, and SMEs themselves. By staying responsive to emerging trends and challenges, the collective aim should be to create a dynamic and supportive ecosystem that fosters the financial inclusivity and long-term success of Small and Medium Enterprises.

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