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Research paper

Institutional Financing and Sustainable Growth of MSMES: Assessing Performance and Prospects

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Abstract

This study investigates the constraints faced by Micro, Small, and Medium Enterprises (MSMEs) in accessing and utilizing financial assistance across Punjab, Haryana, Himachal Pradesh, and Chandigarh. Utilizing a primary data-based approach and a structured Likert-scale questionnaire, the research employed Exploratory Factor Analysis (EFA) to uncover the underlying dimensions of these constraints. Pre-estimation tests confirmed the suitability of the data, and EFA revealed two distinct factors: Procedural and Operational Barriers, and Financial Systemic and Institutional Constraints. The findings indicate that MSMEs struggle not only with complex documentation and collateral requirements but also with limited awareness, digital inaccessibility, and trust deficits in formal financial institutions. These constraints are compounded by regional and demographic disparities, requiring differentiated policy responses. The study concludes that addressing MSME challenges demands an integrated reform framework combining simplified operational processes with system-level institutional transformation. The results contribute meaningfully to policy discourse on inclusive financial access and MSME development in regional economies.

Keywords: *MSMES; Performance; Financial Assistance; Challenges; Growth.*

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are widely acknowledged as the backbone of India's economy, contributing significantly to employment generation, exports, and regional development. Despite their vital role, MSMEs face a range of structural, financial, and operational constraints that hinder their sustainability and growth (Maheshkar & Soni, 2021). These challenges persist across the lifecycle of enterprise development, from the initial stages of formalization and credit access to scaling, modernization, and market integration (Biswas, 2015). At the heart of these constraints lies a systemic disconnect between institutional expectations and the actual capabilities of small businesses, shaped by informality, limited resources, and uneven exposure to policy support (Sanu & Anjum, 2023). While national-level interventions have attempted to bridge this gap, the operational bottlenecks at the state and local levels often dilute their intended impact.

The constraints faced by MSMEs in India can broadly be grouped into two overlapping categories: procedural and informational. Procedural barriers include complex documentation requirements, collateral-based lending norms, rigid eligibility criteria, and lengthy approval processes (Genty et al., 2015). These create substantial entry-level hurdles, particularly for micro and first-time entrepreneurs. Informational constraints relate to low awareness of available government schemes, limited digital literacy, poor financial record-keeping, and lack of clarity regarding the creditworthiness evaluation criteria adopted by banks (Rao et al., 2017). These constraints not only restrict access to formal finance but also erode confidence in institutional mechanisms, leading to a preference for informal sources of credit. Furthermore, variations in banking infrastructure, regulatory outreach, and entrepreneurial ecosystem maturity across states result in uneven experiences and outcomes for MSMEs in different regions of the country (Saha et al., 2023).

In the state of Punjab, MSMEs are highly active in sectors such as manufacturing, textiles, and agro-processing. However, the sector struggles with high dependence on traditional methods, delayed payments, and financing constraints (Singh et al., 2018). Many enterprises operate as family-run units with informal structures, making it difficult for them to meet the formal requirements of financial institutions. In addition, limited awareness of state and central schemes and reluctance to shift to digital platforms further restrict their ability to access structured support (Singh & Singh, 2014). Banks in Punjab often report procedural challenges in disbursing loans to MSMEs due to insufficient documentation, a mismatch in collateral valuation, and high expectations of compliance. Haryana, on the other hand, presents a more industrially developed MSME ecosystem, with better educational levels among entrepreneurs and higher formalization. Despite this relative advantage, access to finance remains a concern, particularly for micro and socially disadvantaged enterprises (Athaide & Pradhan, 2020). Bankers often encounter incomplete applications and inconsistencies in financial records. Moreover, rising non-performing asset

concerns lead to risk aversion, particularly when dealing with small borrowers (Amrinder, 2016). Even in Haryana's industrial zones, there is a need for tailored financial products and capacity-building to align small entrepreneurs with institutional protocols.
In Himachal Pradesh, geographical challenges and limited access to markets exacerbate the difficulties faced by MSMEs. Many operate in semi-urban or rural settings with low formal exposure, making credit access and documentation even more challenging (Athaide & Pradhan, 2020). Awareness levels regarding schemes, digital tools, and eligibility procedures remain low. Banks in the region also face limitations due to staffing constraints and a lack of specialized MSME lending teams. Overall, the MSME sector in Himachal reflects a unique blend of potential and isolation, where customized outreach and simplified processes could yield substantial impact (Rao et al., 2017).
These state-level nuances highlight that while constraints may appear uniform at the surface, their nature, intensity, and solutions are deeply embedded in regional contexts (Mukherjee, 2018). Addressing MSME challenges, therefore, requires not just national policy alignment but also state-responsive institutional reforms and localized support ecosystems.

2. Review of Literature

2.1. Demographic influences on MSME structure and access

Several studies have consistently highlighted the disproportionate dominance of male entrepreneurs in the MSME sector, indicating structural gender disparities in access to capital, mobility, market participation, and institutional networks (Singh & Singh, 2014). In the Indian context, particularly in northern states like Punjab, Haryana, and Himachal Pradesh, women-led MSMEs are fewer and tend to cluster in service or retail-oriented micro-enterprises, often with limited scalability (Sanu & Anjum, 2023). Research suggests that factors such as education, age, and business experience significantly influence an entrepreneur's ability to formalize, access credit, and manage compliance responsibilities (Arayssi et al., 2020). Higher educational qualifications are generally associated with better financial planning, digital adoption, and documentation practices, which in turn enhance creditworthiness.
Caste and community backgrounds also play a subtle yet persistent role in determining entrepreneurial trajectories. While formal banking systems are expected to function in a caste-neutral manner, studies suggest that entrepreneurs from marginalized communities often lack the social capital and institutional familiarity required to navigate complex application processes (Genty et al., 2015). This results in lower visibility, limited networking, and underrepresentation in high-growth sectors (Bhoganadam et al., 2017). Additionally, ownership of business premises, family business legacy, and urban or rural location contribute to the structural positioning of MSMEs within the financial and regulatory ecosystem. Literature further points out that urban entrepreneurs are more likely to benefit from proximity to banking services, professional advisory networks, and digital infrastructure (Singh et al., 2018).
These findings have broad implications for policy and institutional design. They suggest that a standardized support system may unintentionally perpetuate inequality by not accounting for demographic diversity (Thakkar et al., 2012). Instead, differentiated schemes and outreach mechanisms tailored to social, educational, and locational contexts are essential to ensuring equitable inclusion (Maheshkar & Soni, 2021). The literature, therefore, establishes a strong foundation for integrating demographic variables into the assessment of MSME development strategies and credit evaluation frameworks.

2.2. Financial assistance, credit constraints, and performance outcomes

Access to finance is repeatedly identified as one of the most critical enablers for business sustainability and competitiveness. Scholars emphasize that financial constraints affect micro and small enterprises disproportionately more than medium or large firms due to their limited internal reserves, weaker documentation, and inability to provide collateral (Amrinder, 2016). Studies across Indian states show that even when MSMEs are willing to formalize and grow, their efforts are often stunted by restrictive lending practices, complex procedures, and inflexible product designs (Athaide & Pradhan, 2020). Empirical research underlines the importance of financial assistance not just as a liquidity tool, but as a driver of behavioral and structural change. When MSMEs receive timely and adequate credit, their ability to manage working capital, hire staff, invest in marketing, and adopt compliance mechanisms improves considerably (Rao et al., 2017). Post-finance performance indicators such as repayment capacity, business planning, and legal adherence tend to show measurable improvements. However, the impact is not uniform; it is mediated by region, sector, enterprise size, and the purpose for which the credit is used (Biswas, 2015). For example, businesses in urban industrial clusters often leverage finance for expansion, while rural enterprises tend to use it for stabilization or survival (Mukherjee, 2018).
Another dimension widely discussed in the literature is the mismatch between credit supply and enterprise readiness. Formal credit mechanisms continue to rely heavily on asset-based lending and document-intensive evaluation (Sanu & Anjum, 2023). This approach excludes a significant share of potential borrowers who may be financially sound but lack the conventional markers of creditworthiness. Literature recommends the adoption of alternative credit scoring mechanisms based on turnover history, GST compliance, digital transactions, and behavioral data (Singh et al., 2024). Furthermore, studies have shown that when financial assistance is combined with capacity-building and mentorship, its long-term impact on enterprise performance is significantly enhanced (Saha et al., 2023).
This theme also explores the psychological aspect of credit. Many MSME owners are hesitant to approach banks due to past rejections, fear of documentation, or negative experiences with recovery agents. These factors create a trust deficit that limits the effectiveness of financial inclusion efforts (Singh et al., 2024). Scholars argue that addressing this requires not only policy reforms but also a shift in institutional culture toward more supportive, advisory-driven banking models. Literature in this domain lays a comprehensive groundwork for examining how financial ecosystems can be redesigned to better accommodate the operational realities and aspirations of small businesses.

2.3. Institutional and operational constraints in the MSME lending ecosystem

While the constraints faced by MSMEs are well-documented, there is a growing recognition that banks and financial institutions operate under significant limitations. These include outdated risk models, a lack of dedicated MSME lending units, limited staff training, and high compliance pressure (Singh & Singh, 2014). Literature underscores that bank staff often have little time or incentive to engage deeply with MSME clients, resulting in a transactional rather than relational approach to lending. Several studies point to the rigidity of existing loan appraisal and monitoring systems. Banks often apply uniform criteria across diverse MSME profiles, ignoring sectoral nuances and regional variations (Pradhan & Nayak, 2025). This leads to the rejection of otherwise viable enterprises simply because they do not fit the standardized mold. The literature calls for decentralization of decision-making, sector-specific lending frameworks, and the use of digital tools

to enhance risk prediction and service delivery. In regions like Punjab and Haryana, where MSMEs are more formalized, banks may still operate conservatively due to past NPA experiences (Nijam, 2016). In contrast, in Himachal Pradesh and semi-urban Chandigarh, staffing shortages and infrastructural constraints further limit financial outreach.

The literature also discusses the dual burden of under-documentation on the borrower's side and over-regulation on the lender's side. MSMEs often lack organized financial records or struggle with digital processes, while banks remain wary of compliance audits and NPA risks (Saha et al., 2023). This creates a deadlock where both parties feel constrained, leading to delayed approvals, suboptimal loan amounts, or complete disengagement (Mittal & Raman, 2021). Scholars suggest that technology-led solutions such as pre-validated documentation, blockchain-based KYC, and AI-driven credit scoring could help resolve these frictions.

Moreover, researchers highlight that financial schemes, while well-intentioned, often suffer from low awareness and complex application processes. The information asymmetry between policy formulation and grassroots implementation weakens the impact of interventions (Harpriya et al., 2022). Literature emphasizes the need for holistic financial literacy campaigns, multilingual digital portals, and cluster-based facilitation centers to bridge this gap. Finally, there is a consensus that MSME support cannot be the responsibility of banks alone (Bhoganadam et al., 2017). A coordinated ecosystem involving government agencies, industry bodies, academic institutions, and fintech innovators is necessary to design, deliver, and monitor effective financial solutions.

3. Data and Methodology

This study is based on a primary data collection approach, employing a structured questionnaire as the core instrument for capturing relevant information from MSME owners across four states—Punjab, Haryana, Himachal Pradesh, and the Union Territory of Chandigarh. The questionnaire was designed using a Likert scale format, allowing respondents to express the degree of agreement or disagreement with various statements related to business demographics, financial assistance, performance before and after availing finance, and the constraints faced in engaging with formal institutions. The Likert scale provided both granularity and structure, making the responses suitable for quantitative analysis.

Before proceeding with the main statistical analyses, a set of pre-estimation diagnostic tests was conducted to ensure the reliability and validity of the data. Normality tests indicated that the data were appropriately distributed for the intended statistical procedures. Reliability analysis was performed using Cronbach's alpha, and the resulting values fell within acceptable ranges, confirming internal consistency among the questionnaire items and justifying the use of composite variables in subsequent analysis.

The primary statistical method adopted for this study was Exploratory Factor Analysis (EFA), which is widely used in behavioral and social sciences to uncover latent structures within datasets. Before performing EFA, the suitability of the data was evaluated through qualification tests such as the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity. The KMO values were found to be well above the threshold of 0.5, indicating that the sample was factorable and appropriate for EFA. Bartlett's test also returned significant results, confirming that the correlation matrix was not an identity matrix and further validating the use of factor analysis.

To ensure the representativeness of the sample, a proportionate stratified sampling technique was employed. This method allowed the researcher to maintain proportional representation of MSMEs across different states and types (micro, small, and medium enterprises), thus ensuring that the findings could be interpreted with greater confidence in terms of regional and structural diversity. The required sample size was calculated using Cochran's formula for sample size determination, with a 95% confidence level and 5% margin of error. Based on this, a minimum of 385 responses was deemed necessary for statistical validity. Ultimately, responses were collected from 455 MSME owners, exceeding the minimum threshold and thereby strengthening the robustness of the findings.

This methodological framework was chosen to balance statistical rigor with contextual sensitivity. The combination of stratified sampling, validated instrument design, pre-estimation reliability testing, and EFA enabled the study to uncover the underlying dimensions of constraints and performance behaviors within the MSME sector. These steps also ensured that the conclusions drawn from the analysis were grounded in reliable data, robust statistical techniques, and representative sampling.

4. Results and Discussions

The study employed Exploratory Factor Analysis (EFA) to identify latent dimensions within the range of challenges reported by MSMEs in accessing and utilizing financial assistance. The application of EFA was methodologically justified by strong pre-estimation diagnostics. The Kaiser-Meyer-Olkin (KMO) measure of 0.898 confirmed excellent sampling adequacy, indicating that the variables were suitably correlated to form underlying factors. Bartlett's test of sphericity was highly significant ($\chi^2 = 5992.438$, $p < 0.000$), further validating the factorability of the correlation matrix. The determinant of the correlation matrix was 0.000, which, although indicating multicollinearity, is considered acceptable and even necessary in the context of EFA when common variance is being extracted.

Table 1: Pre-Estimation Test for Exponential Factor Analyses

Test	Statistic	Value	Interpretation
Kaiser-Meyer-Olkin (KMO) Measure	Overall KMO	0.898	Indicates great sampling adequacy for factor analysis (KMO > 0.80).
Bartlett's Test of Sphericity	Chi-Square	5992.438	Significant test result confirms factorability.
	Degrees of Freedom	276	
	p-value	0.000	p < 0.05: Rejects null hypothesis; variables are sufficiently correlated.
Determinant of Correlation Matrix	Det	0.000	Very small value; multicollinearity present, which supports EFA if expected.

The Eigenvalue table guided the extraction of two key factors using Kaiser's criterion (eigenvalue > 1). Factor 1 and Factor 2, with eigenvalues of 3.62968 and 3.35488, respectively, emerged as dominant dimensions, cumulatively accounting for a substantial proportion of variance. The steep decline in eigenvalues after the second component, with subsequent values dropping below zero, further confirmed the suitability of a two-factor solution. This supports the retention of two primary latent constructs underlying the constraint dimensions perceived by MSMEs.

Table 2: Eigenvalue Table Values

Factor	Eigenvalue	Difference	Proportion	Cumulative
Factor1	3.62968	0.27480	0.5717	0.5717
Factor2	3.35488	3.32233	0.5284	1.1000
Factor3	0.03256	0.03208	0.0051	1.1052
Factor4	0.00048	0.01615	0.0001	1.1052
Factor5	-0.01567	0.03038	-0.0025	1.1028
Factor6	-0.04605	0.02371	-0.0073	1.0955
Factor7	-0.06988	0.00171	-0.0110	1.0845
Factor8	-0.07197	0.02431	-0.0113	1.0732
Factor9	-0.09568	0.01123	-0.0151	1.0581
Factor10	-0.10691	0.01774	-0.0177	1.0404
Factor11	-0.12304	0.01048	-0.0194	1.0210
Factor12	-0.13352		-0.0210	1.0000
NO of Observations	455			
Prob	0.000			

The rotated component matrix provides rich insights into the grouping of items across these two extracted factors. Factor 1 loads significantly on six core variables: complexity of procedures (0.7218), collateral requirements (0.7206), documentation burden (0.7424), processing time/delays (0.7291), staff responsiveness (0.7148), and loan amount adequacy (0.6967). These high and consistent loadings suggest that the first factor represents a composite constraint category best described as "Procedural and Operational Barriers." The concentration of these items indicates that MSMEs perceive the loan application process as excessively bureaucratic, time-consuming, and lacking in customer-oriented support. The high communalities and relatively low uniqueness values associated with these variables (ranging from 0.3677 to 0.4368) reinforce the internal consistency and explanatory power of this factor.

In contrast, Factor 2 loads prominently on a different cluster of six items: interest rates (0.6537), awareness of schemes (0.7032), technology and digitization (0.7090), credit assessment fairness (0.6822), monitoring and follow-ups (0.7174), and policy and NPA concerns (0.6927). These variables coalesce around themes of financial structure, information dissemination, technological integration, and perceived fairness, suggesting that the second factor represents a dimension best interpreted as "Financial Systemic and Institutional Constraints." The relatively high loadings and low uniqueness values here (mostly under 0.46) imply that MSMEs not only face structural hurdles but also deal with challenges rooted in financial system opacity, lack of outreach, and fear of institutional penalties like NPA classification.

It is important to highlight the clear thematic distinction between the two factors. While Factor 1 addresses transaction-level barriers—the immediate difficulties encountered during the application and processing phases—Factor 2 reveals system-level challenges, which include a lack of access to reliable information, inadequate digital onboarding, and systemic biases in risk evaluation. The absence of significant cross-loadings further validates the conceptual purity of the extracted factors, adding robustness to the findings.

The clarity of this two-factor structure has important implications for MSME support policy and institutional reform. The separation of procedural and systemic constraints highlights the need for a dual-track intervention approach. For constraints under Factor 1, the focus should be on simplifying documentation, rationalizing collateral demands, reducing processing delays, and improving frontline staff responsiveness. These are operational issues that can be addressed through branch-level reforms, streamlined procedures, and training modules for loan officers.

Meanwhile, the constraints grouped under Factor 2 require institutional-level and policy-driven reforms, such as enhancing transparency in interest rate structures, increasing awareness through targeted outreach, deploying vernacular-language digital interfaces, and building trust in credit scoring systems. The presence of high loadings on items like awareness of schemes and digital adoption also suggests that financial literacy and digital inclusion must be prioritized in MSME development efforts.

Additionally, the loading of "policy and NPA concerns" (0.6927) within Factor 2 is particularly noteworthy, as it reflects the psychological dimension of institutional distrust. MSMEs appear wary of rigid repayment rules and punitive classifications, even when delays are minor or circumstantial. This fear inhibits risk-taking and discourages borrowing, ultimately undermining the intent of pro-MSME finance initiatives. Addressing this would require not only policy tweaks but also communication strategies that reassure small businesses about procedural fairness and supportive post-loan engagement.

It is also important to reflect on the broader statistical integrity of the EFA model. The clear extraction of two interpretable factors, the strength of their eigenvalues, and the well-structured loading matrix confirm that the questionnaire items were well-constructed and conceptually aligned. Furthermore, the strong KMO value and significant Bartlett's test validate the cohesiveness of the underlying constructs being measured. This indicates that the instrument used for this study was psychometrically sound and capable of revealing reliable latent patterns within MSME constraints.

Table 3: Factor Loading

Variable	Factor1	Factor2	Factor3	Factor4	Uniqueness
1. Complexity of Procedures	0.7218	-0.2841	0.0923	0.0022	0.3898
2. Collateral Requirements	0.7206	-0.2908	0.0268	0.0059	0.3954
3. Documentation Burden	0.7424	-0.2275	-0.0281	0.0009	0.3963
4. Processing Time/Delays	0.7291	-0.3131	-0.0515	-0.0058	0.3677
5. Staff Responsiveness	0.7148	-0.2828	-0.0848	0.0058	0.4018
6. Loan Amount Adequacy	0.6967	-0.2748	0.0475	-0.0086	0.4368
7. Interest Rates	0.2825	0.6537	0.0872	0.0045	0.4853
8. Awareness of Schemes	0.2258	0.7032	0.0026	0.0035	0.4545
9. Technology & Digitization	0.3012	0.7090	-0.0487	0.0032	0.4043
10. Credit Assessment Fairness	0.3062	0.6822	-0.0177	0.0078	0.4404
11. Monitoring & Follow-ups	0.2958	0.7174	-0.0082	-0.0058	0.3977
12. Policy & NPA Concerns	0.3280	0.6927	-0.0083	-0.0127	0.4124

The exploratory factor analysis successfully identified two coherent and well-differentiated constraint dimensions faced by MSMEs in Punjab, Haryana, Himachal Pradesh, and Chandigarh. The first—Procedural and Operational Barriers—captures inefficiencies and roadblocks in loan initiation and handling. The second—Financial Systemic and Institutional Constraints—reflects deeper limitations rooted in knowledge gaps, technological readiness, and perceptions of fairness. These insights not only enhance our understanding of MSME

struggles but also offer a grounded basis for designing multi-layered, responsive, and region-sensitive interventions aimed at improving credit access and financial inclusion for India's vital small business sector.

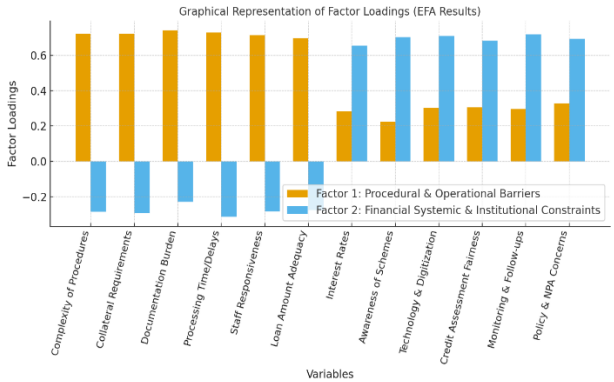

Fig. 1:

The figure presents the factor loadings derived from the exploratory factor analysis (EFA) of MSME financing constraints. Factor 1 (Procedural and Operational Barriers) includes variables such as complexity of procedures, collateral requirements, documentation burden, processing delays, staff responsiveness, and loan amount adequacy. Factor 2 (Financial Systemic and Institutional Constraints) encompasses variables such as interest rates, awareness of schemes, technology and digitization, credit assessment fairness, monitoring and follow-ups, and policy or NPA concerns. Factor loadings above 0.60 were considered significant for interpretation. The graphical comparison highlights the distinct clustering of variables around two major dimensions, confirming the multidimensional nature of MSME financial access challenges.

5. Discussion

The results of the exploratory factor analysis offer important insights into the multidimensional nature of constraints faced by MSMEs in accessing and utilizing financial assistance. The emergence of two clearly defined factors—Procedural and Operational Barriers, and Financial Systemic and Institutional Constraints—highlights the structural and behavioral complexities that frame the MSME experience within the formal credit ecosystem (Saha et al., 2023). The findings resonate with earlier literature, reinforcing the understanding that MSMEs in India are not merely constrained by the absence of finance but by the conditions under which finance is accessed, the rigidity of institutional systems, and the gaps in outreach, information, and service delivery.

The first factor, Procedural and Operational Barriers, encapsulates fundamental issues related to the application, processing, and disbursal of loans. Variables such as complexity of procedures, collateral requirements, documentation burden, processing delays, inadequate loan sizing, and poor staff responsiveness load heavily on this dimension (Singh et al., 2024). This suggests that for many MSMEs, particularly in regions like Himachal Pradesh and semi-urban parts of Punjab, the core struggle is not with the intention to formalize or grow, but with navigating a bureaucratic and often rigid credit environment. These findings confirm prior observations that the operational architecture of MSME finance remains largely standardized, despite the sector's inherent diversity in size, structure, and regional presence. As a result, a mismatch persists between what financial institutions expect and what small businesses are equipped to deliver (Pradhan & Nayak, 2025). It also emphasizes the need for user-centric reform in frontline banking operations—streamlining documentation, introducing collateral substitutes, and improving service orientation among bank staff.

The second factor, Financial Systemic and Institutional Constraints, adds another layer of complexity by bringing in elements such as interest rates, awareness of financial schemes, digital readiness, credit assessment fairness, post-loan monitoring, and concerns related to policy rigidity and NPA classification (Harpriya et al., 2022). These are issues that extend beyond day-to-day loan processing and speak to systemic weaknesses in the credit delivery and risk evaluation framework. The high loading of technology and digitization, for instance, indicates that while digital financial tools are becoming the norm, many MSMEs—particularly in smaller towns and hilly terrains—remain unprepared or unsupported in transitioning to these platforms. Similarly, awareness of government schemes is still uneven, despite extensive policy investments. This suggests that top-down policy delivery is often undermined by weak last-mile connectivity and communication failures at the institutional level (Mittal & Raman, 2021). Moreover, the presence of credit assessment fairness and NPA concerns within this factor points to a perceptual trust gap between entrepreneurs and lenders, driven in part by rigid compliance expectations and punitive responses to delays, even when unintentional.

At this juncture, it is essential to consider the transformative role of digital technologies in reshaping these constraints. Emerging technologies such as artificial intelligence (AI), blockchain, and fintech-based credit models are increasingly recognized as tools capable of mitigating both procedural and systemic bottlenecks. AI-driven credit scoring systems, for example, can reduce human bias and reliance on collateral-based evaluation, enabling more inclusive and data-driven lending for MSMEs with limited formal credit histories. Similarly, blockchain-enabled KYC and documentation systems could streamline loan applications, enhance transparency, and minimize fraudulent practices. Fintech platforms also facilitate faster loan disbursal, real-time credit monitoring, and integration of digital payments—all of which directly target the inefficiencies identified in both procedural and systemic factors. However, the benefits of such technologies are contingent upon digital literacy, infrastructure readiness, and trust among MSME owners, which vary significantly across regions. Therefore, while digital transformation presents a promising pathway, its success depends on localized implementation strategies that address these disparities.

Together, these two factors provide a comprehensive explanation of the dual burden faced by MSMEs: one rooted in procedural friction, and the other in systemic disconnect. Importantly, the factors are not mutually exclusive. An entrepreneur facing collateral issues is often the same individual unfamiliar with digital onboarding or wary of scheme eligibility (Gupta et al., 2022). This interlinkage reinforces the need for an integrated approach to MSME policy—one that goes beyond isolated fixes and instead seeks to reframe institutional thinking around the lived experiences of small entrepreneurs (Harpriya et al., 2022).

An additional dimension worth noting is the influence of demographic variables on the experience of these constraints. The intersection of gender, caste, and educational background often determines the degree of accessibility and trust MSMEs can establish with formal

institutions. For instance, women-led and lower-caste enterprises frequently encounter higher procedural barriers and informational asymmetries, exacerbating existing inequalities in credit access. Similarly, entrepreneurs with limited formal education tend to exhibit lower digital readiness, which in turn amplifies the challenges of adopting fintech solutions. Thus, demographic diversity not only shapes the perception of constraints but also influences the extent to which technological and institutional reforms can be effective. Integrating demographic sensitivity into policy design—through gender-responsive financial schemes, community-based digital training, and inclusive credit scoring models—can ensure that digital transformation does not reproduce traditional exclusions within the financial system.

Regional variations must also be acknowledged. While relatively urbanized regions like Haryana may struggle more with scale-readiness and financial system engagement, states like Himachal Pradesh contend with infrastructural and informational isolation. Therefore, interventions must be context-sensitive, blending simplified processes with regionally targeted financial literacy, digital inclusion, and trust-building strategies. The discussion affirms that addressing MSME constraints is not solely a financial challenge but an institutional one, demanding reform at both structural and relational levels..

6. Conclusion

The present study set out to explore and understand the multifaceted constraints faced by Micro, Small, and Medium Enterprises (MSMEs) in Punjab, Haryana, Himachal Pradesh, and Chandigarh in accessing and utilizing financial assistance. Through the application of exploratory factor analysis and a well-structured primary survey, the research identified two core dimensions of constraints: procedural and operational barriers, and financial systemic and institutional limitations. These findings collectively underscore that the challenges encountered by MSMEs are not solely rooted in the absence of finance but also in the architecture and culture of financial service delivery.

The first dimension of constraint is operational in nature, capturing issues such as complex application procedures, rigid collateral requirements, burdensome documentation, processing delays, and inadequate responsiveness from bank staff. These difficulties directly inhibit MSMEs from effectively approaching and engaging with formal credit systems. The second dimension reflects systemic institutional barriers, including limited awareness of financial schemes, digital and technological challenges, perceived unfairness in credit evaluations, and fear of punitive measures like NPA classification. Together, these factors reveal a layered and interconnected set of constraints that restrict not just credit access but also the willingness of MSMEs to participate fully in the formal financial ecosystem.

The study's conclusions reaffirm that improving MSME credit access requires a dual approach—simplifying operational processes at the point of service while simultaneously addressing deeper institutional and systemic limitations. It also highlights that demographic and regional variations must be considered when designing inclusive policy interventions. Urban MSMEs may benefit more from technological innovations and flexible loan products, while rural and semi-urban enterprises may require greater handholding, outreach, and simplified systems.

Ultimately, this study contributes to the growing body of knowledge that sees MSME development not as a singular policy goal, but as a collaborative and structural challenge involving banks, governments, and entrepreneurs alike. Addressing the layered constraints identified in this study calls for an integrated framework of reform that blends administrative efficiency with trust-building, education, and inclusion—ensuring that the full potential of MSMEs as engines of economic development is not only recognized but effectively realized.

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