

MSME Finance: An Empirical Study On Policy Reforms, Cash Flow Based Lending, And Digital Solutions

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) play a critical role in economic growth, employment generation, and industrial development in India. Despite their significance, MSMEs in Jaipur district continue to experience a persistent financial gap due to limited access to affordable and timely credit. High collateral requirements, lengthy loan processes, and low awareness of government schemes exacerbate this challenge, restricting business expansion and sustainability. The study employed a descriptive research design, combining both primary and secondary data. Primary data were collected through structured questionnaires and interviews conducted with 379 randomly selected MSMEs across Jaipur district. Secondary data were sourced from government reports, academic journals, and published literature on MSME financing. Statistical tools, including descriptive analysis and cross-tabulations, were used to interpret the data and derive meaningful insights. The findings revealed that although 96.7% of MSMEs were registered under the UDYAM framework, financing issues persisted. Most enterprises accessed credit only after 1–3 years of operation, with banks being the primary but restrictive lenders. Over 74% of respondents identified low-cost and timely finance as the most critical challenge. Awareness of government financing schemes remained low, while the majority supported cash-flow-based lending as an effective alternative to collateral-based credit evaluations. High interest rates were also perceived as a major financial burden. The study concludes that bridging the financing gap requires policy reforms, adoption of cash-flow-based lending, improved financial literacy, and greater digital financial inclusion. Implementing these measures can strengthen MSME resilience and promote sustainable growth.

Keywords: MSMEs, Financial Gap, Credit Accessibility, Cash-Flow-Based Lending, Jaipur District

INTRODUCTION

The MSMEs form the backbone of the economy, particularly in emerging economies like India. They form a huge GDP, employment, and export contribution and regional growth (Khan, 2020). Indian MSMEs generate approximately 30 percent of the national GDP, and over 120 million individuals work in this sphere, which indicates the significance of the MSMEs in the social-economic development (Gupta et al., 2018). Jaipur is the capital city of Rajasthan, and it is a busy industrial city with the MSMEs concentrated in a number of sectors, including handicrafts, textiles, gems and jewelry, and tourism. The industrial character of the city can be defined by the fact that it has a combination of micro, small, and medium-sized industries that are both traditional and modern, and this also represents the importance of these industries in the economic growth of the area.

Even after this enormous contribution, MSMEs in Jaipur and India, in general, continue to struggle because of the number of challenges and the most important of them is the financial gap which can be explained as the gap between the financial needs of these businesses and their capacity to access sufficient and affordable sources of finance (Biswas, 2014; Choudhury & Goswami, 2017). The financial deficiency forces businesses to resort to expensive non-formal financial institutions like moneylenders and non-banking financial companies (NBFCs), which further strains the firms in terms of finances (Hermawan et al., 2022). It is also made complex by poor collateral, financial illiteracy of business owners, and high lending criteria of lending institutions (Ramaswamy et al., 2020). This inequality is further compounded by the fact that the formal financial institutions are not willing to give out money to MSMEs because of the perceived risk and lack of credit information infrastructure (Bhatnagar & Sharma, 2021).

The Government of India has devised numerous schemes to access finance, like Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE) and Credit Linked Capital Subsidy Scheme (CLCSS). These schemes are not used much and are not known very well. As the literature states, digitalization, new financing schemes, and cash-flow-based lending strategies have already been cited in the literature as possible means of filling the gap (Rahayu et al., 2023; Abdullah & Oseni, 2017).

Even though MSMEs are acknowledged to be the growth engines, there has always been a massive gap in funding, which has kept affecting the financial status of the MSMEs (Biswas et al., 2018). This is very worrying in Jaipur, where the percentage of MSMEs that depend on the traditional banking systems is very high, and the lending institutions are more concerned with the collaterals as opposed to business potential and cash flows. According to the latest data, which has been compiled by the MSMEs in Jaipur, more than three-fourths of the credit approvals are collateral-based and the majority of the entrepreneurs have opined that the process of loan sanctioning is a very long and cumbersome process. Access to finance, especially at low cost and on time, is the greatest concern of more than 60 percent of the owners of MSMEs.

Not only is the financial inequality preventing the expansion of businesses, but it is also restricting the ability of the MSMEs to adopt the new technologies, compete in the global market, and survive in case of economic shocks such as the COVID-19 pandemic (Bhardwaj & Bhardwaj, 2021). Some of the factors that continue to thwart development in spite of the government interventions include a lack of transparency, a lack of awareness of the available schemes, and the conservative nature of the banks. The former studies have been preoccupied with the identification of the factors that lead to the financial gap but have not paid so much attention to the actions that can be undertaken under the local circumstances, such as Jaipur (Chaurasia et al., 2020). There is a need to conduct special research on viable and practical measures of reducing the financial gap among the MSMEs in this district.

The study is limited to MSMEs within Jaipur district, and the region is an appropriate sampling area given that it has a wide range of industrial operations and a high concentration of registered companies (Bhagat, 2023). The research will involve manufacturing, service, and ancillary units that have been registered under the UDYAM platform. It is restricted to the financial side of MSMEs, especially the access to credit, the type of financing available, and the problem of formal financial institutions.

The research is based on primary data collected through surveys and questionnaires that will be conducted with MSME owners in Jaipur and secondary data obtained through academic journals, government reports, and literature on MSME financing that already exists (Chitsimran et al., 2020). The results of the study cannot be applied to MSMEs in other geographical locations that have a different economic and policy environment. Although market dynamics, efficiency of management, and socio-cultural differences are some of the factors that have an impact, they are beyond the scope of the study. The limitations also concern the possible bias of the respondents in the primary data collection, as not every entrepreneur may have given all the information or given the information accurately, being afraid of the confidentiality of this information (Baker et al., 2019).

One of the major challenges to industrialization and economic resilience has been discovered to be the problem of financial shortage in the MSME sector (Ahamed & Raju, 2023). It is important to bridge the gap not only to make MSMEs more competitive but also to attain the wider developmental objectives like poverty reduction and employment (Garg & Agarwal, 2017). In the Jaipur scenario, this can be met to a great extent, benefiting the local industries, the livelihood of the workers, and also the economy of the state and the country.

The relevance of the study is that it tries to go beyond the problem identification to the formulation of actionable measures in line with the facts of the MSMEs of Jaipur. Through the primary and secondary data, the study gives policy makers, lending institutions, and entrepreneurs evidence-based recommendations on how to narrow the financing gap (Kumar & Rao, 2016; Bishnoi, 2025). The results will be of value to the scholarly discussion concerning MSME financing as they will help to add to local solutions of the bigger picture concerning the country (Hudson et al., 2001). Another limitation that the study reveals is the possibility of using innovative funding mechanisms, financial literacy, and digital financial inclusion to overcome the bottlenecks in the system (Rahayu et al., 2023; Hermawan et al., 2022).

Research Objectives:

- To understand the availability and utilization of credit facilities provided by government and private financial institutions to MSMEs in Jaipur district
- To assess the extent and nature of the financial gap experienced by MSMEs in the region
- To identify effective measures that can reduce the financial gap and enhance the accessibility of formal credit for MSMEs in Jaipur district

LITERATURE REVIEW

Before coming to a critical analysis of the literature available on the same, it is important to present a conceptual framework of how MSMEs can be interpreted as well as how they are financed. The section examines the

scholarly literature and government publications, and empirical evidence, which all support the economic importance of MSMEs and the scorching problems that prevail in terms of access to finance.

Overview of the MSME Sector and Its Economic Significance

The Indian MSMEs have proved to be the pillar of the national economy, and their significant input in GDP, exports, and employment (Gupta et al., 2018). The industry is distinguished by such features of the industry as the labor-intensive nature of the production, low investment thresholds, and the ability to enhance the development of the region (Khan, 2020). Being a driver of entrepreneurship and rural industrialization, MSMEs have never been less than the most important source of industrial production and innovation (Garg & Agarwal, 2017). The industrial composition of Jaipur is mixed with respect to MSMEs in textiles, handicrafts, gems, and tourism, which form a traditional and modern industrial composition in Jaipur. Nevertheless, even though MSMEs are crucial, the level of their financial potential is rather low as they do not have an opportunity to access formal credit, which limits their potential and competitiveness (Ramaswamy et al., 2020).

The Concept of Financial Gap in MSMEs

The gap between the amount of financing that is available in sufficient amounts by formal institutions and the credit requirements of the MSMEs can be termed as the financial gap (Biswas, 2014). The gap has been attributed by different researchers to a long-term problem that has impacted MSMEs' survival and growth (Choudhury & Goswami, 2017). Poor asset value, absence of collaterals, and the informal nature of the MSMEs' management are some of the key factors that the financial institutions have deemed as high-risk borrowers (Ramaswamy et al., 2020). This, in turn, leads to the fact that a great number of MSMEs have to turn to the informal and rather expensive sources of finance, i.e., the NBFCs or even to the moneylenders, which only adds to the financial strain (Hermawan et al., 2022).

The problem of the financial gap is also connected with the fact that the system of comprehensive credit information has not yet been developed fully, and creditors cannot make sufficient decisions concerning the creditworthiness of MSMEs (Bhatnagar & Sharma, 2021). The owners of MSMEs have very poor financial literacy and informal financial behavior and find it difficult to access formal lending sources (Jain, 2023). Such challenges can be explained by the necessity to introduce the structural changes and the new financial tools that could assist the needs of MSMEs.

Factors Contributing to the Financial Gap

There are several factors that result in the fact that the financial gap is faced by MSMEs at the moment. One of the largest hindrances is the collateral that the banks require, and most of the loans that have been given out have been given out on the security of the assets rather than the business potential. This reduces the credit levels, particularly to the micro-enterprises which have low physical assets (Biswas et al., 2018). The other reason is that the loan-granting processes are complicated and time-consuming. Research has helped to identify that most of the owners of the MSMEs consider the procedure of sanctioning credit a boring and time-consuming process, thus negatively slowing down the process of business. The low knowledge about the government-sponsored guarantee schemes, including CGTMSE, further hinders the already low use of these schemes (Ramaswamy et al., 2020).

The risk-averse aspect of the financial institutions is also interesting to see. Banks are keen on reducing risks, and this is one of the reasons why they are reluctant when it comes to lending money to MSMEs in comparison to the past experiences of non-performing assets (NPAs) (Yadav, 2012). The internal funds utilized and the lack of desire to open financial information to the public are some of the behavioral biases that SME owners have and contribute to this gap (Baker et al., 2018).

Existing Government Initiatives and Their Limitations

The Government of India has taken several measures to fill the gap in the funding of the MSME sector, such as Credit Linked Capital Subsidy Scheme (CLCSS), Prime Minister Employment Generation Program (PMEGP), and Credit Guarantee Fund Trust for micro and small enterprises (CGTMSE) (Gupta et al., 2018). The plans will increase the availability of institutional credit through subsidizing, guaranteeing, and upgrading technology. The literature indicates that these initiatives are not that effective because of the inefficient awareness of the entrepreneurs and the bureaucracy, and the ineffective implementation of the same (Ahamed & Raju, 2023). Most of the MSMEs either do not know these schemes, or their process of application process is too complicated (Jain, 2023). Therefore, those programs fail to meet their intended beneficiaries in terms of the intended outcomes (Chitsimran et al., 2020).

Emerging Trends and Proposed Solutions

The new research has shown that there is a necessity to possess cash-flow-based lending instead of credit assessment based on collateral (Rahayu et al., 2023). The method measures the ability of the MSMEs to repay their loans, not based on their physical assets but based on their cash flows, thereby opening up access to finance to be more inclusive. In the Jaipur setting, most respondents also preferred this model as one of the measures to facilitate access to credit. Another transformative factor in the financing gap has also been pointed out to be digital financial inclusion. The application of fintech, cloud-based solutions, and digital payment systems will enable better access to finance, reduce transaction costs, and enhance credit evaluation, especially to MSMEs (Hermawan et al., 2022). The financial literacy and awareness programs among entrepreneurs can empower them to utilize formal channels of financing (Jain, 2023).

The literature also indicates that new sources of financing MSMEs can be developed through green financing and innovative sources of funding such as crowdfunding and equity-based investments (Bhatnagar & Sharma, 2021; Abdullah & Oseni, 2017). The key to a strong system of financial support for the MSMEs is the improved collaboration between government agencies, financial institutions, and credit bureaus (Hudson et al., 2001).

Gaps in Existing Literature

Although a lot of research has been done on the issues that MSMEs face, little has been done to research the measures that can be used to mitigate the financial gap. The majority of studies are aimed at diagnosing the issues without providing a solution that can be applied in a specific area (Chaurasia et al., 2020). Localized data on financing issues and interventions that would fit the Jaipur district is limited in the existing literature, and this presents a gap in the knowledge on how the financing issues are unique to the district and what would be the appropriate interventions that would address the issues. Not much has been done to explore the systematic ways in which technology, digitalization, and alternative financing mechanisms can be incorporated in the MSME financing models in India. The gap also demonstrates the significance of studies that integrate practical data and new ideas to introduce effective solutions.

METHODOLOGY

The section on methodology describes the procedure that was followed to meet the research goals. It outlines the research methodology, the data source, sampling, and data analysis. Outlining these elements, the section gives a clear picture of the way the study was done and also ensures that the research procedure is transparent and replicable.

Research Design

The research design used in the study was a descriptive research design because the researcher wanted to explore the actions that were being taken to bridge the financial gap in the Micro, Small, and Medium Enterprises (MSMEs) in Jaipur district. The design was selected due to the possibility of a systematic analysis of both primary and secondary data to clarify the current financing problems and determine the possible ways to resolve them. The methodology allowed for a combination of the empirical results of field surveys with the knowledge about the topic gained in the course of a thorough literature review and government reports. The study provided an in-depth overview of the factors that lead to the financial gap and the aspects that could minimize it because of the mixture of qualitative and quantitative data.

Data Sources

The research relied on both primary and secondary data sources.

- **Primary Data:** The structured questionnaire was used to collect primary data by administering it to the owners of MSMEs in Jaipur district. The survey contained questions about access to credit, experience with financial institutions, knowledge of government schemes, difficulties in finance acquisition, and recommendations on how to improve credit accessibility. In-depth interviews were conducted through personal and telephone interviews to get the detailed views of the entrepreneurs of choice.
- **Secondary Data:** The secondary data were collected in the form of published journals, government reports, annual reports of the MSME development institutes, and other scholarly articles. To facilitate the analysis, literature on the MSME financing gaps in the country and regionally was reviewed. Other reports, like the annual reports of the Ministry of MSME and results of previous studies on the patterns of financing, were also used to contextualize the results of the primary data.

Sampling Design

The study population consisted of all MSMEs registered in Jaipur district with the help of the UDYAM registration system. As per the data collection time, 25,935 registered units were recorded with micro, small, and medium enterprises. Considering this large population, the sample size was calculated as per the Cochran formula of finite population, and the optimum sample size was calculated as 379 units.

A simple random sampling method was used so that all the enterprises in the population could have the same probability of being selected. This was a method that reduced the selection bias and maximized the sample size. The sample consisted of enterprises that covered various areas of industry and regions such as manufacturing, services, and ancillary units, which signified the variety of the MSME sector in Jaipur.

Research Instrument

A structured questionnaire was used as the main data collection tool, as it would allow both quantitative and qualitative data to be collected. The questionnaire included closed-ended and open-ended questions, which allowed gathering some measurable data and, at the same time, gave freedom of opinion to the respondents. Sections of the questionnaire included:

- General information about the enterprise,
- Sources and experience of credit facilities,
- Challenges encountered in accessing formal finance,
- Awareness and usage of government financing schemes, and
- Suggestions for improving access to bank credit.

It was pilot-tested on a small group of MSME owners in order to ensure that the questions were clear and relevant and that there was reliability. The pilot study was to give feedback that was utilized in amending the questionnaire before actual large-scale data collection.

Data Collection Procedure

The process of data collection was conducted within a specific time frame, and it was both online and offline. There was also a direct visit to the industrial regions, and the respondents who were willing to take part were interviewed in person. In the case of enterprises that could not give the responses physically, the interviews were done over the phone to obtain the required information. The respondents were assured of confidentiality, and this motivated them to give true and fair responses. The work was ethical, and it was an informed consent study. The issues of the unwillingness of the respondents to give sensitive information in terms of finances were also taken into consideration during data collection through ensuring anonymity.

Data Analysis

The SPSS software and Microsoft Excel were used to compile, tabulate, and analyze data collected. The quantitative data were provided to draw meaningful conclusions with the help of statistical methods. The findings were put in the form of a percentage and frequency distribution (descriptive statistics). The cross-tabulations were used to determine the patterns and relationships between the variables, like the size of the enterprise, access to credit, and experiences with lenders. Qualitative data, gathered on the basis of open-ended questions and interviews, were interpreted with the help of thematic analysis. Important themes were derived and coded to explain the recommendations and the perception of the MSME owners on the financial gap. These understandings complemented the quantitative results and gave a complete picture of the research issue.

Reliability and Validity Measures

To guarantee the validity of the research results, the research study used standardised research tools and uniform processes in the course of the fieldwork. The questionnaire was well-designed and pre-tested to ensure that the questions were clear, not biased, and had the ability to elicit the necessary data. Follow-up interviews were done to check the responses where there were inconsistencies. The selection bias was to be minimized by random sampling and thereby improving the consistency and reliability of the results.

The use of multiple sources of data in the study gave it more validity as both primary survey data and secondary data in the form of credible journals, government reports, and industry profiles were used. The content validity was achieved by ensuring that the questionnaire was aligned to the objectives of the research and what is available in the literature on MSME financing. The construct validity was strengthened through the use of variables that reflected all the aspects of the financial gap, including collateral requirements, interest rates, and knowledge of the government schemes.

Ethical Considerations

The research procedure entailed ethical integrity as a major element. The purpose of the study was explained to all the respondents, and the participation was voluntary. The information was kept confidential, and at no time

did sensitive business or personal information get out. The study was conducted in line with academic and ethical standards, and as such, it upheld the validity and reliability of the research findings. These steps combined to increase the quality and validity of the study, and the conclusions could be trusted to be used by policymakers, financial institutions, and MSME stakeholders to make informed decisions and execute successful financial plans.

RESULTS

The study of the data that was obtained by surveying 379 MSMEs in Jaipur district helped to understand the access to credit, financing issues, and attitudes toward formal and informal lending procedures. The findings are a mix of the descriptive statistics of the survey and appropriate findings based on secondary sources of data.

UDYAM Registration Status of MSMEs

As Table 1 reveals, a staggering 96.7 percent of the MSMEs in Jaipur district were registered in the UDYAM framework, which indicates that the government registration policies are being followed well. Only 3.3% of enterprises remained unregistered, indicating minimal gaps in formal registration. This high registration rate suggests that most MSMEs are aware of and have access to official processes, which potentially facilitates their eligibility for government schemes and financial support, although it does not necessarily guarantee easier access to credit.

Table 1: Distribution of MSMEs Based on UDYAM Registration Status

Registration Status	Micro (n=367)	Small (n=21)	Medium (n=3)	Total (n=391)	%
Yes	354	21	3	378	96.7%
No	13	0	0	13	3.3%

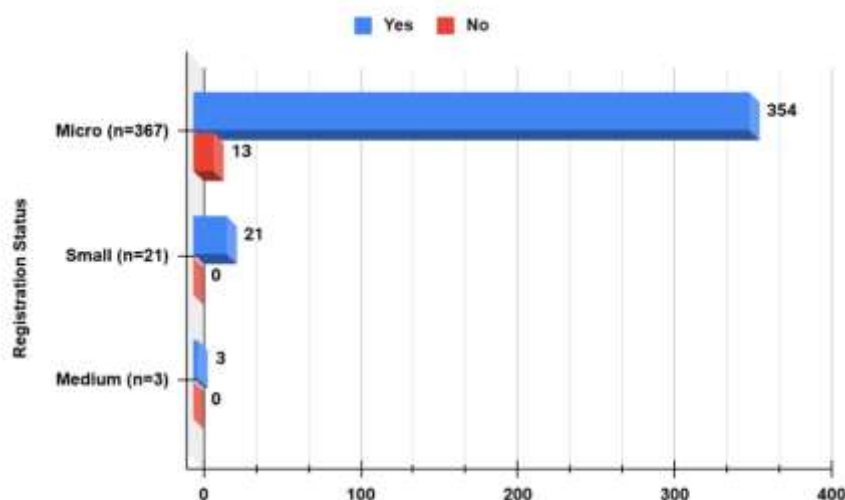


Figure 1: UDYAM Registration Distribution

Figure 1 visually demonstrates that the majority of MSMEs in Jaipur are registered under the UDYAM framework, with micro-enterprises showing the highest compliance. The negligible number of unregistered units indicates strong formalization, although registration does not automatically guarantee improved credit access.

Sources of Credit Facility

Table 2 highlights that banks are the dominant source of finance for MSMEs in Jaipur, with 70.6% of respondents relying on public or private banks for their credit needs. 22% of enterprises depend on NBFCs, reflecting challenges in accessing traditional bank credit. 7.4% of MSMEs reported having no access to any formal credit facility, which underscores the persistence of financial exclusion and the need for alternative lending models to bridge the financing gap.

Table 2: Sources of Credit Facilities Availed by MSMEs

Credit Source	Micro	Small	Medium	Total	%
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Banks (Public/Private)	259	15	2	276	70.6%
NBFCs	79	6	1	86	22.0%
No Credit Facility	29	0	0	29	7.4%

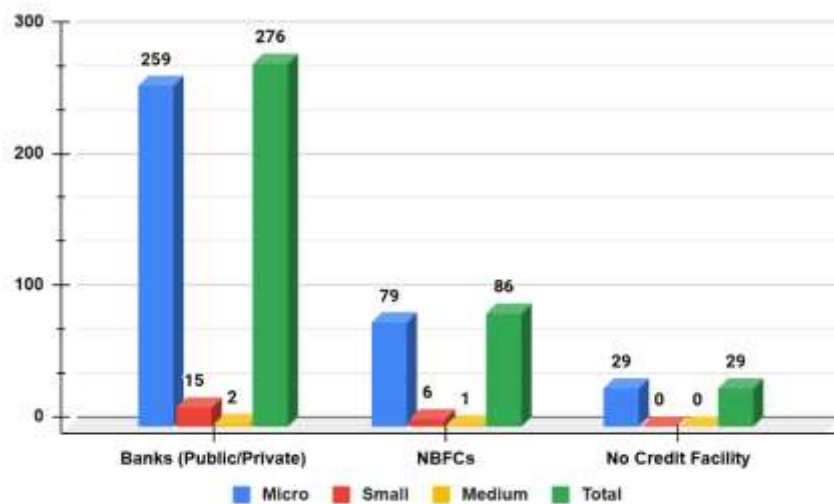


Figure 2: Distribution of Credit Sources

Figure 2 illustrates that banks are the dominant source of credit for MSMEs, with the highest usage among micro-enterprises. NBFCs serve as an alternative for a smaller share, while a minor portion of enterprises reported having no credit access at all.

Stage of Business When Credit Was Accessed

Table 3 indicates that the majority of MSMEs (73.4%) accessed credit only after operating successfully for 1–3 years, highlighting a clear tendency among lenders to finance businesses with an established track record rather than startups. Only 19.2% of enterprises obtained credit at the start-up stage, suggesting that early-stage ventures face greater difficulties in securing funds. 7.4% of respondents reported that no loan was sanctioned to them, reflecting the existence of financial exclusion despite formal registration. These findings emphasize the need for policies and lending models that support both new and existing enterprises equitably.

Table 3: Stage at Which MSMEs Obtained Credit Facility

Stage of Loan Approval	Micro	Small	Medium	Total	%
At Business Start-up	71	4	0	75	19.2%
After 1–3 Years of Operations	267	17	3	287	73.4%
No Loan Sanctioned	29	0	0	29	7.4%

Experience with First Credit Facility

Table 4 reveals that 59.8% of MSME owners experienced a lengthy process when obtaining their first loan, even though it was eventually sanctioned. Only 18.7% reported that their loans were sanctioned easily, indicating that straightforward approvals are rare. 21.5% of respondents found the process very difficult, with their applications not sanctioned at all. These results highlight procedural inefficiencies and stringent lending practices, which create barriers for MSMEs in accessing timely and adequate financial support.

Table 4: MSME Owners' Experiences with First Loan Sanction

Experience	Micro	Small	Medium	Total	%
Easily Sanctioned	67	5	1	73	18.7%
Lengthy Process but Sanctioned	218	14	2	234	59.8%
Very Difficult, Not Sanctioned	82	2	0	84	21.5%

Awareness and Utilization of Government Schemes

Table 5 demonstrates that only 21.5% of MSMEs were aware of or utilized government-sponsored guarantee schemes like CGTMSE, while a significant 78.5% lacked awareness or access. This low utilization rate reflects

inadequate outreach and highlights the need for stronger awareness campaigns to improve scheme adoption among MSME owners.

Table 5: Awareness of Government-Sponsored Guarantee Schemes (e.g., CGTMSE)

Awareness of Schemes	Yes	No	% Yes
Inclination for Govt. Guarantee Use	84	307	21.5%

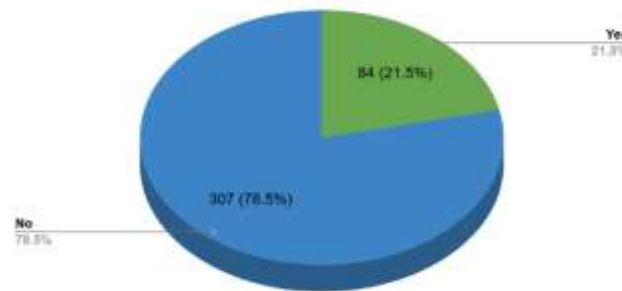


Figure 3: Awareness of Government-Sponsored Schemes

Figure 3 shows that only 21.5% of MSMEs were aware of or used government-sponsored guarantee schemes, while a significant 78.5% lacked awareness or access. This indicates a major gap in outreach and utilization of financial support programs.

Challenges Faced by MSMEs

Table 6 highlights that low-cost and timely finance is the most critical challenge for MSMEs in Jaipur, identified by 74.4% of respondents. This finding underscores the persistent financial gap despite government initiatives. 16.9% cited a shortage of skilled manpower as a significant issue, while 7.2% pointed to the need for cost-effective production methods. Only 1.5% of respondents considered growth in sales as their primary challenge. These results indicate that financial constraints remain the dominant obstacle, limiting the capacity of MSMEs to innovate, expand, and compete effectively in both domestic and global markets.

Table 6: Primary Challenges Identified by MSMEs in Jaipur District

Challenges Identified	Micro	Small	Medium	Total	%
Cost-Effective Production	27	1	0	28	7.2%
Skilled Manpower	63	2	1	66	16.9%
Growth in Sales	4	2	0	6	1.5%
Low-Cost and Timely Finance	273	16	2	291	74.4%

Respondents' Suggestions to Improve Credit Access

Table 7 indicates that 61.6% of MSME owners suggested cash-flow-based lending as the most effective way to improve credit access, emphasizing the need to move away from collateral-heavy evaluations. 27.1% supported implementing all measures collectively, including better transparency from both banks and borrowers. Smaller proportions recommended improving bank loan assessment transparency (6.9%) and borrower information disclosure (4.4%) individually. These findings reflect a strong demand for reforms in lending practices to make credit more accessible and equitable.

Table 7: Suggestions by MSME Owners for Easier Credit Access

Suggestions for Improving Credit Access	Micro	Small	Medium	Total	%
Cash Flow-Based Lending	223	16	2	241	61.6%
Transparency in Bank Loan Assessment	26	1	0	27	6.9%
Transparency in Information Disclosed by MSME Borrowers	17	0	0	17	4.4%
All of the Above (Comprehensive Measures)	101	4	1	106	27.1%

Respondents' Views on Interest Rates (ROI) Charged by Banks/NBFCs

Table 8 reveals that 53.7% of MSMEs perceived interest rates charged by banks and NBFCs as very high, significantly increasing their financial burden. Meanwhile, 29.9% stated that the interest rate did not matter when urgent financing was required, indicating a willingness to accept higher costs during critical needs. Only 16.4% considered the rates acceptable. These findings highlight that high interest rates remain a key barrier to affordable credit, often forcing MSMEs to rely on costly financing options.

Table 8: MSME Owners' Perceptions of Interest Rates (ROI)

Perception of ROI	Micro	Small	Medium	Total	%
At Par and Acceptable	58	3	1	64	16.4%
Very High and Affects Finance Cost	193	15	2	210	53.7%
ROI Does Not Matter When Finance Is Needed	116	3	0	119	29.9%

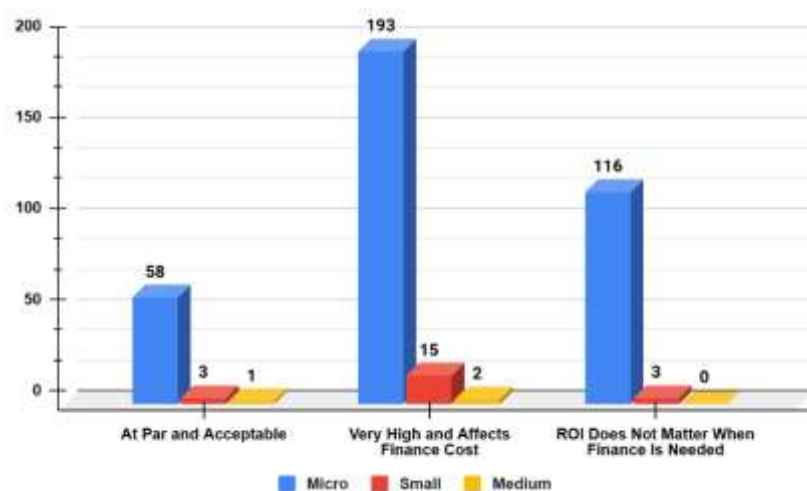


Figure 4: Perceptions of ROI Among MSME Owners

Figure 4 illustrates that a majority of MSMEs, particularly micro-enterprises, view interest rates as very high, increasing their financial burden. A smaller proportion finds rates acceptable, while nearly a third considers interest rates irrelevant when urgent financing is required.

DISCUSSION

The findings of the study revealed that MSMEs in Jaipur district continue to face significant challenges in accessing affordable and timely finance. The survey highlighted that 96.7% of enterprises were registered under the UDYAM framework, which indicates strong compliance with government policies but does not necessarily translate to easier access to credit facilities. Despite their registration, 70.6% of MSMEs still relied on banks as the primary source of finance, while 22% depended on NBFCs, and 7.4% had no access to any formal credit facility. It is linked to the issues of low access to the formal sources of financing, which leads to this dependence on NBFCs and informal lenders (Hermawan et al., 2022). The statistics also revealed that 73.4 percent of the enterprises obtained credit when they had been in business between 1 and 3 years, implying that the lenders have higher chances of lending money to enterprises that have been in the business a long time, hence posing a challenge to new businesses (Ramaswamy et al., 2020). Over 59 percent of the respondents indicated that the process of loan sanction is time-consuming, and 21.5 percent experienced serious challenges in accessing credit, which is a sign of inefficiencies in the processes.

The challenges were also identified eminently, with 74.4 percent of the respondents mentioning low-cost and timely finance as the most critical issue. The level of awareness of government schemes was also very worrying because only 21.5 percent of the respondents affirmed that their loans were taken into account under guarantee coverage schemes. This ignorance reduces the effectiveness of such government programs as CGTMSE and PMEGP (Gupta et al., 2018). Respondents were overwhelmingly in their preference of lending based on cash-flow, with 61.6 percent in favor of this model to substitute the present collateral-driven model. Fifty-three and

seven percent believed that interest rates were very high, and this is an indication that the monetary cost continues to be a burden to the MSMEs. It is due to these that formal credit exists, but not always one that is sympathetic to the small-scale enterprises, and hence the need to resort to other financing.

The findings of the research are in line with the previous research findings on the financing gap of MSMEs in India. Biswas (2014) and Biswas et al. (2018) report that the financial gap is caused by inadequate access to formal credit, high interest rates, and strict collateral requirements, among others. These issues had been converted into the current results, in which MSMEs were not content with the conventional lending. The paper gives evidence that the lack of awareness about the schemes proposed by the government is an obstacle to receiving the help available, as it was noted by Choudhury and Goswami (2017). This is provided by the fact that these programs have the minimum effect that happens due to the bureaucratic intricacies and the inaccurate information dissemination (Ahamed & Raju, 2023).

Rahayu et al. (2023) assert that in order to reach more MSMEs with access to finance, alternative credit assessment models must be used, and this aspect is in the advantage of the approach of lending based on cash-flows. Therefore, the solution to such a gap is most probably digital financial inclusion and fintech solutions, which, as it was stressed by Hermawan et al. (2022), are expected to help in this case. Such recommendations are consistent with the recommendations given by the respondents as far as digitalization and cash-flow evaluations are concerned. The results are in line with the conclusion of Ramaswamy et al. (2020), who discovered that the banks are still conservative in the context of lending to MSMEs, mainly because of the risk perception of the banks and their bad loan experiences in the past. Such significant dependence on less traditional sources of lending also gives credence to the prior times of Yadav (2012) regarding the vulnerability of the industry to expensive debt.

The study also aligns with the descriptions given by Bhatnagar and Sharma (2021) regarding the innovative financing mechanisms that can be implemented to ensure that MSMEs can become more sustainable, such as green financing and crowdfunding. Such models have a low rate of awareness and adoption in Jaipur, which is indicative of the existence of a gap between policy work and practice (Kore et al., 2021).

Policymakers, financial institutions, and MSME owners are of utmost significance to the findings of the research. As far as policymakers are concerned, the results show that there is a need to raise awareness campaigns to ensure that the owners of the MSMEs are well aware of the financing programs supported by the government. It must be focused on simplification of the process and opening it up to small businesses. The research indicates to the financial institutions why they should implement cash-flow-based lending systems in a bid to make credit more accessible. This would allow lenders to base their decisions regarding the repayment ability of businesses on their cash flows rather than relying solely on collaterals, which would reduce the entry barrier of micro and small enterprises (Rahayu et al., 2023).

The results also show that the interest rates have to be reviewed again so that formal credit becomes more attractive than informal credit. The reduction in interest rates, the provision of subsidized credit lines, and the ease of loan approval systems would improve the availability of formal financing of MSMEs (Kumar & Rao, 2015). The findings mean that the owners of MSMEs need to enhance their financial literacy and record-keeping abilities. They would be more credible with better transparency of their finances, and they would have access to formal loans better as well (Jain, 2023). Digitalization of financial tools will enable MSMEs to develop their credit history and utilize the services of modern lending.

Despite the informative findings of the study, some limitations have to be mentioned. The study was limited to Jaipur district, and this limits the applicability of the research findings to other areas that may have different industrial setups and financial landscapes. The self-reported information was used to collect the data, which was also prone to respondent bias or error.

Although the paper combined both primary and secondary data, the qualitative part (interviews) was not as in-depth because of time and resource limitations, so the scope of in-depth information on particular issues that MSME owners experienced was less. Lastly, the research was not able to regulate external factors in the research, like macroeconomic conditions, policy changes, and market forces, which might have affected the outcomes.

Further studies need to take into account the geographic extension to more than one district or state, which would enable the comparison of the MSME financing trends. The incorporation of longitudinal data could bring clarity as to how the financial gaps emerge as time goes by, especially with the emergence of new policies or economic phenomena. It is also possible to address the role of digital finance, fintech applications, and alternative lending platforms in the definition of how they can be employed to fill the financing gap. As the

study found that cash-flow-based lending is a model that is preferred, future studies may evaluate how this model works and performs in various settings.

The other possible direction is to look at the sector-specific issues in MSMEs because the financing needs differ by industry, manufacturing, service, and technology. Lastly, policy impact evaluations of government programs such as CGTMSE, PMEGP, and digital initiatives would give evidence-based suggestions to improve such programs.

CONCLUSION

The study was able to give an in-depth review of the financial issues affecting the MSMEs in Jaipur district and the possible solutions to fill the financing gap. The results revealed that although the majority of enterprises were registered, they continued to experience restrictive lending practices, high interest rates, and a lack of access to cheap credit. The overdependence on collaterals as a basis of judgments and long loan processes further deterred entrepreneurs, especially the small-scale ones, from accessing formal credit. It was also found that the awareness and use of government-backed financing schemes were lower, and this indicates a disconnect between the policy formulation and practical implementation. Such findings have significant implications for policymakers, financial institutions, and the owners of the MSMEs. The policymakers must work on the accessibility and visibility of the support schemes, and the banks must shift towards more innovative lending methods like cash-flow-based lending. The owners of MSMEs themselves should take initiative to improve their financial literacy, keep clear records, and seek other means of financing. All these can enhance the credit ecosystem of MSMEs such that they do not rely on informal and expensive lenders. In order to fill the abovementioned gaps, it is proposed that financial institutions implement cash-flow-based lending systems, streamline processes, and provide subsidized interest rates for formal financing to be more appealing. There is a need to increase awareness programs so that entrepreneurs get to know completely about the advantages and mechanisms of government schemes. Through the promotion of digital financial tools, there can be assistance in building MSMEs with improved credit histories and in accessing formal loans. Further research can take it a step further to compare financing gaps across regions and industries, the impact of fintech and digitalization on the facilitation of credit, and the long-term effects of government interventions. These studies will help in developing effective policies that can be used to close the financial gap and to develop the sustainable growth of MSMEs.

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