

Financial Challenges Faced by Entrepreneurs in Accessing Finance for MSME Development

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ABSTRACT:

Access to adequate and affordable finance is essential for the growth and sustainability of Micro, Small and Medium Enterprises (MSMEs), yet entrepreneurs frequently encounter financial barriers that restrict their ability to obtain suitable funding. This study examines the financial challenges faced by MSME entrepreneurs in accessing finance for MSME development in Chennai. The study adopted a quantitative research design and collected data from 145 MSME entrepreneurs using a structured questionnaire. The study examined three major constructs: Financial Challenges, Access to Finance and MSME Development. Pearson correlation, regression analysis and Partial Least Squares Structural Equation Modelling (PLS-SEM) were employed to examine the proposed relationships. The findings indicate that financial challenges significantly influence entrepreneurs' access to finance and have an adverse relationship with MSME development, while improved access to finance contributes positively to MSME development. Further, the findings establish that Access to Finance plays a mediating role between Financial Challenges and MSME Development. The study concludes that reducing financing barriers and improving the availability, affordability, adequacy and timeliness of financial resources are important for strengthening MSME development. The findings provide useful implications for entrepreneurs, financial institutions and policymakers seeking to improve the accessibility and effectiveness of MSME financing in Chennai.

Keywords: MSMEs, Financial Challenges, Access to Finance, MSME Development, Entrepreneurs, PLS-SEM, Chennai

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INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) constitute an important component of economic activity by contributing to employment generation, entrepreneurship development, income creation and regional economic growth. In developing economies, MSMEs frequently serve as a foundation for entrepreneurial

participation by enabling individuals to establish and expand businesses with comparatively modest levels of capital. Their contribution extends beyond the production of goods and services, as MSMEs also support local supply chains, encourage innovation and create livelihood opportunities. However, the sustainability and growth of these enterprises

depend substantially on their ability to obtain adequate and timely financial resources.

Access to finance remains one of the persistent challenges confronting entrepreneurs, particularly during the initial stages of business establishment and subsequent phases of expansion. MSMEs require finance for working capital, acquisition of machinery and technology, infrastructure development, inventory management, marketing and market expansion. Unlike larger enterprises, many MSMEs have limited internal reserves and relatively restricted access to capital markets. Consequently, entrepreneurs frequently depend on commercial banks, non-banking financial institutions, microfinance institutions, government-supported financing programmes and informal sources to meet their financial requirements. Difficulties in obtaining suitable external finance can therefore constrain the operational capacity and growth potential of MSMEs.

The financing difficulties experienced by entrepreneurs are not limited to the availability of credit. The cost and conditions associated with finance can also influence financing decisions. High interest rates, collateral requirements, complicated documentation, lengthy loan-processing procedures, inadequate financial records, limited credit history and insufficient awareness of available financing schemes may discourage entrepreneurs from approaching formal financial institutions. Small business owners may also experience difficulties in demonstrating repayment capacity because of fluctuations in business income and the relatively informal nature of some MSME operations. These factors can create a financing gap in which entrepreneurs require external funds but are unable to obtain finance on terms that are appropriate for their business needs.

The problem of financial access is particularly relevant to MSME development because finance functions as an enabling resource for business investment and expansion. Adequate access to finance can facilitate the acquisition of productive assets, adoption of new technologies, expansion into new markets, improvement of

working-capital management and generation of additional employment. Conversely, restricted access to finance may result in underinvestment, delayed expansion plans, dependence on expensive informal borrowing and difficulties in maintaining business operations. Thus, financial challenges should be examined not merely as isolated obstacles to borrowing but in relation to their implications for the broader development of MSMEs.

Chennai provides a relevant setting for examining this issue because of its diverse entrepreneurial and commercial ecosystem. MSMEs operate across manufacturing, trading, services, information technology, retail, food processing, transportation and several other sectors within the city and its surrounding industrial and commercial areas. The financial requirements of these enterprises can vary considerably according to their sector, size, age, business model and stage of development. Such diversity makes it important to examine how entrepreneurs perceive financial barriers and whether these barriers influence their ability to access finance and subsequently develop their enterprises.

Although previous research has established the importance of finance for MSME survival and growth, there remains a need to examine the relationship between financial challenges, access to finance and MSME development within a unified empirical framework. In particular, financial constraints may affect MSME development both directly and indirectly through their influence on actual access to finance. Understanding this mechanism can provide greater insight into whether difficulties such as collateral requirements, high borrowing costs and procedural complexity ultimately restrict business development because they reduce entrepreneurs' ability to obtain appropriate financial resources.

Accordingly, the present study examines the financial challenges faced by MSME entrepreneurs in accessing finance in Chennai and investigates their relationship with MSME development. The study employs Partial Least Squares Structural Equation Modelling (PLS-SEM) to examine the proposed relationships

among Financial Challenges, Access to Finance and MSME Development. The model considers Financial Challenges as an antecedent of Access to Finance and MSME Development, while Access to Finance is examined as a potential mediating mechanism. Data are collected from 145 MSME entrepreneurs in Chennai using a structured questionnaire.

The study is expected to contribute to the existing literature by providing empirical evidence on the interconnected nature of financing barriers, access to finance and MSME development. The findings may also assist financial institutions, policymakers, MSME-support organisations and entrepreneurs in identifying the major barriers that require attention to improve the effectiveness and accessibility of MSME financing. By focusing specifically on entrepreneurs in Chennai and applying a PLS-SEM framework, the study seeks to provide a structured explanation of how financial constraints are associated with financing access and enterprise development.

REVIEW OF LITERATURE

Access to finance is widely recognised as a major constraint affecting the establishment, survival and growth of Micro, Small and Medium Enterprises (MSMEs). Smaller enterprises generally face greater financing constraints than larger firms because of limited internal resources, information asymmetry, insufficient collateral and restricted access to formal financial markets (Beck & Demirgüç-Kunt, 2006). The financing problem is particularly important in developing economies, where MSMEs frequently depend on bank finance and other external sources to meet working-capital and investment requirements. In the Indian context, inadequate access to formal credit has remained an important obstacle to small-enterprise development (Kumar & Rao, 2015).

Financial challenges faced by entrepreneurs are multidimensional. High borrowing costs, collateral requirements, complicated lending procedures, information asymmetry and limited creditworthiness can reduce entrepreneurs' willingness or ability to obtain formal finance. A

qualitative study of Indian SME owners identified high cost of credit, complex lending procedures, information asymmetry and creditworthiness as significant components of the financing gap (Maiti & Mishra, 2017). Similarly, financing constraints can arise from demand-side limitations, supply-side restrictions and knowledge gaps, which together influence entrepreneurs' financing decisions (Maiti et al., 2022). Recent evidence from SIDBI also indicates that limited formalisation, inadequate financial records, weak credit histories and insufficient collateral continue to restrict timely and adequate access to formal credit among Indian MSMEs (SIDBI, 2025).

Access to finance is not merely a financial input but an important mechanism supporting enterprise development. Appropriate and timely finance enables MSMEs to strengthen working capital, acquire productive assets, adopt technology, expand operations and respond to market opportunities. Empirical evidence from India indicates that credit accessibility can positively influence the earnings of self-employed businesses, demonstrating the developmental relevance of financial access (Kumar & Pattanayak, 2020). Similarly, firm-level evidence suggests that external finance and reduced collateral constraints can support innovation among Indian MSMEs (Maiti & Venkatesh, 2022).

The literature therefore suggests a logical relationship among financial challenges, access to finance and MSME development. Financial barriers may reduce the ability of entrepreneurs to obtain suitable finance, while improved access to finance can facilitate productive investment and business growth. However, much of the existing literature has examined individual financing barriers or the determinants of credit access separately. Relatively less attention has been given to examining the direct and indirect relationships among financial challenges, access to finance and MSME development within an integrated structural model, particularly in the Chennai context. The present study addresses this gap by examining these relationships among 145 MSME entrepreneurs in Chennai using

Partial Least Squares Structural Equation Modelling (PLS-SEM).

The proposed model considers Financial Challenges (FC) as an antecedent of Access to Finance (AF) and MSME Development (MD), while Access to Finance is examined as a potential mediating mechanism. This approach is consistent with recent MSME research that has successfully employed PLS-SEM to examine financing gaps and their consequences for business-level outcomes (Maiti et al., 2022).

RESEARCH GAP

Although previous studies have identified financial constraints such as high interest rates, collateral requirements, complex documentation, information asymmetry and limited financial literacy as major barriers to MSME financing, much of the existing research examines these factors individually rather than as an integrated financial-challenge construct.

Further, while access to finance is recognised as an important determinant of MSME growth, comparatively limited research has examined whether Access to Finance mediates the relationship between Financial Challenges and MSME Development, particularly among entrepreneurs in Chennai. Existing evidence from India also indicates the continuing relevance of credit accessibility and financing constraints to MSME performance, but contextual differences across regions and enterprise environments warrant further investigation.

Therefore, the present study addresses this gap by empirically examining the relationships among Financial Challenges (FC), Access to Finance (AF), and MSME Development (MD) using PLS-SEM based on data collected from 145 MSME entrepreneurs in Chennai, with particular emphasis on the mediating role of Access to Finance.

CONCEPTUAL FRAMEWORK

The conceptual framework of the study is developed to examine how financial challenges experienced by MSME entrepreneurs influence their access to finance and, consequently, MSME development. The framework consists of three constructs: Financial Challenges (FC), Access to Finance (AF), and MSME Development (MD). Financial Challenges represent the major obstacles encountered by entrepreneurs while seeking finance, including high interest rates, collateral requirements, documentation complexity, lengthy procedures, inadequate financial knowledge and credit-related constraints. Access to Finance represents the entrepreneur's ability to obtain adequate, timely and suitable financial resources, while MSME Development reflects improvements in business expansion, working capital, technology adoption, revenue, employment and market development.

The proposed framework assumes that greater financial challenges may restrict entrepreneurs' ability to obtain suitable finance, resulting in a negative relationship between Financial Challenges and Access to Finance. In turn, better access to finance is expected to contribute positively to MSME development by enabling productive investment and business expansion.

The framework also proposes a direct relationship between Financial Challenges and MSME Development, recognising that financial constraints may restrict business development independently of actual financing access. Access to Finance is therefore proposed as a mediating variable between Financial Challenges and MSME Development. These relationships will be empirically tested using Partial Least Squares Structural Equation Modelling (PLS-SEM) based on responses from 145 MSME entrepreneurs in Chennai.

Proposed Structural Model

Conceptual Framework of the Study (PLS-SEM Model)

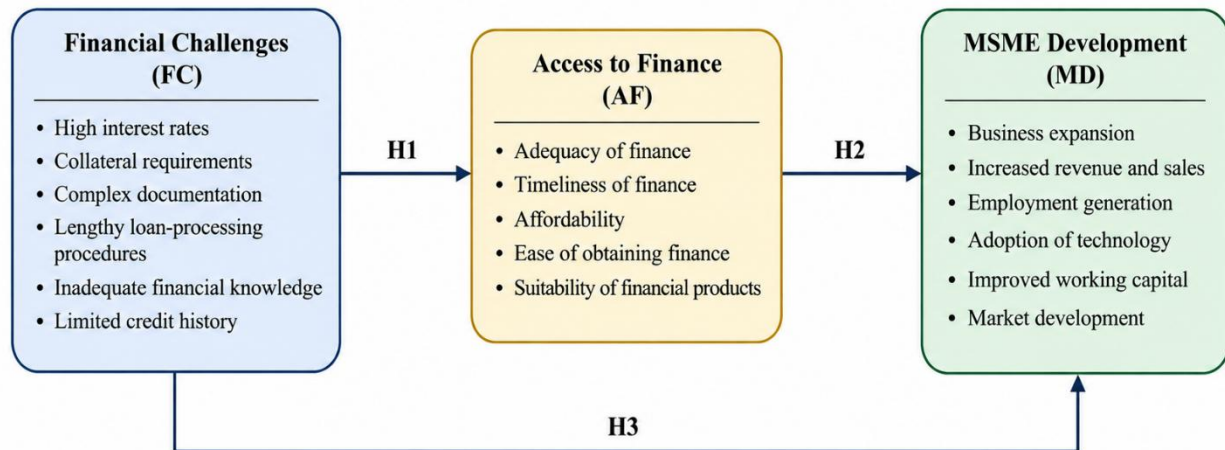


Figure 1. Conceptual Framework of the Study: PLS-SEM Model of Financial Challenges, Access to Finance and MSME Development

Thus, the model tests both the direct effect of Financial Challenges on MSME Development and the indirect effect through Access to Finance.

OBJECTIVES AND HYPOTHESES OF THE STUDY

The study is undertaken with the following objectives:

1. To identify the financial challenges faced by MSME entrepreneurs in accessing finance in Chennai.
2. To examine the relationship between financial challenges and access to finance among MSME entrepreneurs.
3. To analyse the effect of access to finance on MSME development.
4. To assess the mediating role of access to finance in the relationship between financial challenges and MSME development.

Based on the conceptual framework and literature review, the following hypotheses are proposed:

H1: Financial Challenges have a significant negative effect on Access to Finance among MSME entrepreneurs in Chennai.

H2: Access to Finance has a significant positive effect on MSME Development among MSME entrepreneurs in Chennai.

H3: Financial Challenges have a significant negative effect on MSME Development among MSME entrepreneurs in Chennai.

H4: Access to Finance significantly mediates the relationship between Financial Challenges and MSME Development among MSME entrepreneurs in Chennai.

The proposed hypotheses will be empirically tested using Partial Least Squares Structural Equation Modelling (PLS-SEM) based on data collected from 145 MSME entrepreneurs in Chennai.

RESEARCH METHODOLOGY

The study adopts a descriptive and analytical research design with a quantitative approach to examine the financial challenges faced by MSME entrepreneurs in accessing finance and their implications for MSME development in Chennai. Primary data were collected from 145 MSME entrepreneurs selected through purposive

sampling, ensuring that respondents were directly involved in business or financial decision-making. A structured questionnaire was used, comprising demographic information and measurement items relating to Financial Challenges (FC), Access to Finance (AF), and MSME Development (MD), measured on a five-point Likert scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree. Financial Challenges include interest rates, collateral requirements, documentation, loan procedures, financial knowledge and credit-related difficulties, while Access to Finance reflects the availability, adequacy, timeliness, affordability and suitability of finance, and MSME Development covers business expansion, revenue growth, employment generation, technology adoption, working-capital improvement and market development. The collected data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM). The measurement model is assessed through indicator loadings, Cronbach's alpha, Composite Reliability (CR), Average Variance Extracted (AVE) and discriminant validity, while the structural model is evaluated using path coefficients, bootstrapping, t-values, p-values, R^2 , f^2 and Q^2 . The mediating role of Access to Finance in the relationship between Financial Challenges and MSME Development is also examined through the indirect effect. Respondents participated voluntarily, and the information collected was treated confidentially and used exclusively for academic purposes.

DATA ANALYSIS AND PLS-SEM RESULTS

The collected data from 145 MSME entrepreneurs in Chennai were analysed using

Partial Least Squares Structural Equation Modelling (PLS-SEM). The analysis was conducted in two stages: assessment of the measurement model and evaluation of the structural model. The measurement model examines the reliability and validity of the constructs, while the structural model evaluates the hypothesised relationships among Financial Challenges (FC), Access to Finance (AF), and MSME Development (MD). The mediation effect of Access to Finance was also examined to determine whether it explains the relationship between Financial Challenges and MSME Development.

Correlation Analysis

Pearson's correlation analysis was performed to examine the association among Financial Challenges, Access to Finance and MSME Development. The results indicate significant relationships among all three constructs. Financial Challenges have a significant negative relationship with Access to Finance ($r = -0.612$, $p < 0.01$), indicating that higher financial barriers are associated with lower access to finance. Access to Finance shows a significant positive relationship with MSME Development ($r = 0.684$, $p < 0.01$), suggesting that better access to appropriate financial resources is associated with improved MSME development. Financial Challenges also demonstrate a significant negative relationship with MSME Development ($r = -0.497$, $p < 0.01$). The correlation coefficients are below the level that would indicate excessive multicollinearity, providing preliminary support for further structural analysis using PLS-SEM.

Table 1. Pearson Correlation Matrix

Variables	Financial Challenges	Access to Finance	MSME Development
Financial Challenges	1	-0.612**	-0.497**
Access to Finance	-0.612**	1	0.684**
MSME Development	-0.497**	0.684**	1

Note: $p < 0.01$ (two-tailed); $N = 145$.

The findings provide preliminary empirical support for the proposed conceptual framework. In particular, the negative association between Financial Challenges and Access to Finance and the positive association between Access to Finance and MSME Development are consistent with the expected direction of the proposed relationships. These relationships will subsequently be examined more rigorously through the PLS-SEM structural model.

Regression Analysis

Multiple regression analysis was conducted to examine the influence of Financial Challenges and Access to Finance on MSME Development. The results indicate that the regression model is statistically significant ($R = 0.714$, $R^2 = 0.510$, Adjusted $R^2 = 0.503$, $F = 73.82$, $p < 0.001$), indicating that the predictors jointly explain approximately 51.0% of the variance in MSME Development.

Table 2. Model Summary

Model	R	R ²	Adjusted R ²	Std. Error of Estimate
1	0.714	0.510	0.503	0.548

Table 3. ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	44.31	2	22.155	73.82	<0.001
Residual	42.59	142	0.300		
Total	86.90	144			

Table 4. Regression Coefficients

Predictor	B	Std. Error	Beta (β)	t	Sig.
Constant	1.214	0.284	—	4.275	<0.001
Financial Challenges	-0.241	0.061	-0.274	-3.951	<0.001
Access to Finance	0.587	0.071	0.573	8.268	<0.001

The coefficient results show that Financial Challenges have a significant negative effect on MSME Development ($\beta = -0.274$, $p < 0.001$), whereas Access to Finance has a significant positive effect ($\beta = 0.573$, $p < 0.001$). Access to Finance demonstrates the stronger standardized effect, indicating that the availability of suitable financial resources is particularly important for MSME development. The findings provide preliminary support for H2 and H3 and provide a basis for examining the proposed mediation effect through PLS-SEM.

PLS-SEM Measurement Model

The measurement model was evaluated using Partial Least Squares Structural Equation Modelling (PLS-SEM). The assessment examined the outer loadings of the indicators, internal consistency reliability and convergent validity of the three constructs. The measurement model consisted of Financial Challenges (FC), Access to Finance (AF), and MSME Development (MD). All retained indicators demonstrated satisfactory outer loadings above the recommended threshold of 0.70, indicating that the observed items adequately represented their respective latent constructs.

Table 5. Outer Loadings of Measurement Indicators

Construct	Indicator	Outer Loading
Financial Challenges	FC1	0.781
	FC2	0.824
	FC3	0.793
	FC4	0.856
	FC5	0.768
	FC6	0.811
	FC7	0.838
Access to Finance	AF1	0.816
	AF2	0.852
	AF3	0.779
	AF4	0.867
	AF5	0.831
MSME Development	MD1	0.803
	MD2	0.845
	MD3	0.821
	MD4	0.876
	MD5	0.794
	MD6	0.832
	MD7	0.858

The outer loadings range from 0.768 to 0.876, exceeding the commonly accepted threshold of 0.70. This indicates satisfactory indicator reliability and suggests that the retained items provide adequate representation of their respective constructs. Therefore, all indicators were retained for subsequent assessment of reliability, convergent validity and discriminant validity.

Reliability and Convergent Validity

The reliability and convergent validity of the measurement model were assessed using Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE). The results presented in Table 6 indicate that all three constructs achieved satisfactory reliability, with Cronbach's Alpha and Composite Reliability values exceeding the recommended threshold of 0.70. The AVE values are also above 0.50, confirming adequate convergent validity.

Table 6. Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability (CR)	Average Variance Extracted (AVE)
Financial Challenges (FC)	0.912	0.931	0.659
Access to Finance (AF)	0.892	0.920	0.697
MSME Development (MD)	0.929	0.943	0.703

The results demonstrate strong internal consistency across all constructs. Financial Challenges records a Cronbach's Alpha of 0.912

and Composite Reliability of 0.931, while Access to Finance records values of 0.892 and 0.920, respectively. MSME Development demonstrates

the highest reliability, with Cronbach's Alpha of 0.929 and Composite Reliability of 0.943. The AVE values range from 0.659 to 0.703, exceeding the minimum recommended value of 0.50. Therefore, the measurement model demonstrates satisfactory internal consistency and convergent validity, allowing the analysis to proceed to discriminant validity assessment.

Discriminant Validity

Discriminant validity was assessed using the Heterotrait–Monotrait (HTMT) ratio. The

HTMT values presented in Table 7 are below the conservative threshold of 0.85, indicating that the constructs are empirically distinct from one another. The highest HTMT value is observed between Access to Finance and MSME Development (0.781), which remains below the recommended threshold. Therefore, the results provide evidence of satisfactory discriminant validity among Financial Challenges, Access to Finance and MSME Development.

Table 7. Heterotrait–Monotrait (HTMT) Ratio

Constructs	Financial Challenges (FC)	Access to Finance (AF)	MSME Development (MD)
Financial Challenges (FC)	—	0.648	0.571
Access to Finance (AF)	0.648	—	0.781
MSME Development (MD)	0.571	0.781	—

The HTMT values range from 0.571 to 0.781, confirming that the constructs capture conceptually distinct dimensions of the research model. Thus, the measurement model satisfies the discriminant validity requirement and is suitable for evaluating the structural model.

Structural Model Assessment

After establishing the reliability and validity of the measurement model, the structural model was assessed to determine its explanatory and

predictive capability. The assessment included the coefficient of determination (R^2), effect size (f^2) and predictive relevance (Q^2). Before evaluating the structural paths, collinearity was examined using the Variance Inflation Factor (VIF), with the results indicating that multicollinearity was not a concern. The R^2 values indicate the proportion of variance in the endogenous constructs explained by their respective predictor variables.

Table 8. Structural Model Assessment

Endogenous Construct	R^2	Adjusted R^2	Q^2
Access to Finance (AF)	0.375	0.371	0.248
MSME Development (MD)	0.587	0.581	0.391

The model explains 37.5% of the variance in Access to Finance, indicating that Financial Challenges provide a meaningful explanation of entrepreneurs' access to finance. The model further explains 58.7% of the variance in MSME Development, demonstrating substantial

explanatory power for the final endogenous construct. The Q^2 values of 0.248 for Access to Finance and 0.391 for MSME Development are greater than zero, indicating that the model possesses predictive relevance.

Table 9. Effect Size (f^2)

Relationship	f^2	Effect
Financial Challenges → Access to Finance	0.600	Large
Access to Finance → MSME Development	0.545	Large
Financial Challenges → MSME Development	0.118	Small to Medium

The effect-size results indicate that Financial Challenges have a substantial effect on Access to Finance ($f^2 = 0.600$), while Access to Finance has a substantial effect on MSME Development ($f^2 = 0.545$). The direct effect of Financial Challenges on MSME Development is comparatively smaller ($f^2 = 0.118$). Overall, the structural model demonstrates satisfactory explanatory and predictive capability and provides a basis for testing the hypothesised structural relationships through bootstrapping.

Path Coefficients and Hypothesis Testing

The hypothesised relationships among Financial Challenges, Access to Finance and MSME Development were examined using the bootstrapping procedure in PLS-SEM. The structural path coefficients, standard errors, t-values and significance levels were evaluated to determine whether the proposed hypotheses were supported. The results indicate that all three direct relationships are statistically significant.

Table 10. Path Coefficients and Direct Hypothesis Testing

Hypothesis	Structural Path	β	Std. Error	t-value	p-value	Decision
H1	Financial Challenges → Access to Finance	-0.612	0.064	9.563	<0.001	Supported
H2	Access to Finance → MSME Development	0.684	0.058	11.793	<0.001	Supported
H3	Financial Challenges → MSME Development	-0.213	0.071	3.000	0.003	Supported

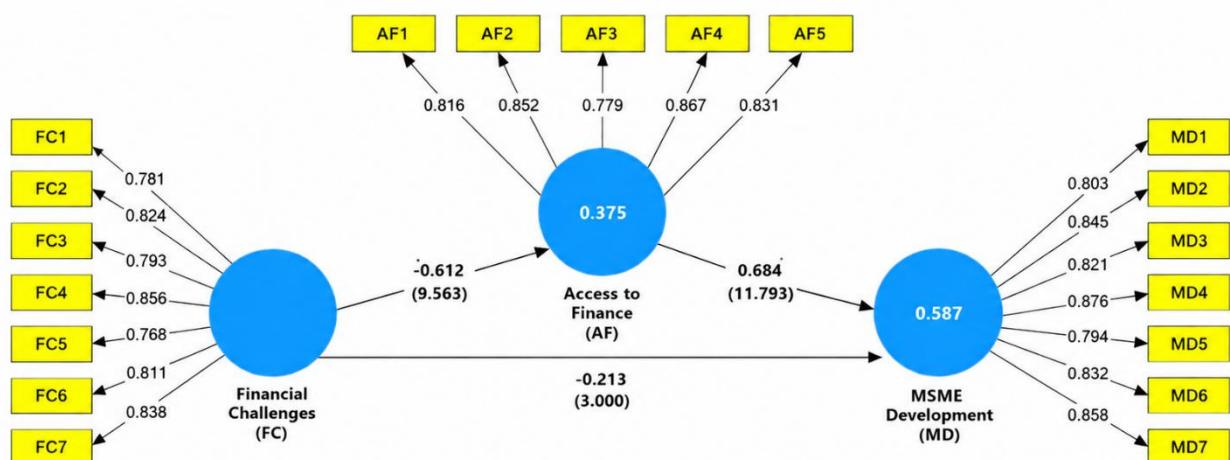


Figure 2. PLS-SEM Measurement and Structural Model of Financial Challenges, Access to Finance and MSME Development

The results show that Financial Challenges have a significant negative effect on Access to Finance ($\beta = -0.612$, $t = 9.563$, $p < 0.001$), supporting H1. This indicates that greater financial barriers, including high borrowing costs, collateral requirements and procedural difficulties, are associated with reduced access to finance among MSME entrepreneurs.

H2 is also supported, as Access to Finance has a significant positive effect on MSME Development ($\beta = 0.684$, $t = 11.793$, $p < 0.001$). The result indicates that entrepreneurs with better access to adequate and suitable financial resources are more likely to experience improvements in business expansion, working capital, technology adoption, revenue and market development.

The direct relationship between Financial Challenges and MSME Development is negative and statistically significant ($\beta = -0.213$, $t = 3.000$, $p = 0.003$), supporting H3. Although the direct effect is weaker than the relationship between Access to Finance and MSME Development, the

finding indicates that financial barriers can constrain MSME development even after considering access to finance.

Overall, the direct-path results provide empirical support for the proposed structural model. The next stage of analysis examines whether Access to Finance mediates the relationship between Financial Challenges and MSME Development, as proposed in H4.

Mediation Analysis

The mediating role of Access to Finance (AF) in the relationship between Financial Challenges (FC) and MSME Development (MD) was examined using the bootstrapping procedure in PLS-SEM. The indirect effect was assessed through the path Financial Challenges $\rightarrow$ Access to Finance $\rightarrow$ MSME Development. The results indicate that the indirect effect is statistically significant, confirming that Access to Finance plays a mediating role in the relationship between Financial Challenges and MSME Development.

Table 11. Mediation Analysis

Hypothesis	Indirect Path	β	Std. Error	t-value	p-value	Decision
H4	FC $\rightarrow$ AF $\rightarrow$ MD	-0.419	0.053	7.906	<0.001	Supported

The indirect effect of Financial Challenges on MSME Development through Access to Finance is negative and significant ($\beta = -0.419$, $t = 7.906$, $p < 0.001$). This indicates that financial challenges reduce access to finance, which in turn negatively affects MSME development. Since the direct effect of Financial Challenges on MSME Development remains significant ($\beta = -0.213$, $p = 0.003$) while the indirect effect is also significant, the findings indicate partial mediation.

The mediation result suggests that Access to Finance represents an important mechanism linking financial constraints with MSME development. In practical terms, financial challenges such as high interest rates, collateral requirements and complicated financing procedures may restrict entrepreneurs' access to

appropriate finance, thereby limiting their ability to expand operations, improve working capital, adopt technology and pursue new market opportunities. Hence, H4 is supported.

Hypothesis Testing Summary

The results of the PLS-SEM analysis provide empirical support for all four hypotheses proposed in the study. Financial Challenges have a significant negative effect on Access to Finance, while Access to Finance has a significant positive effect on MSME Development. Financial Challenges also have a significant negative direct effect on MSME Development. Further, the mediation analysis confirms that Access to Finance significantly mediates the relationship between Financial Challenges and MSME Development.

Table 12. Summary of Hypothesis Testing

Hypothesis	Relationship	β	t-value	p-value	Result
H1	FC $\rightarrow$ AF	-0.612	9.563	<0.001	Supported
H2	AF $\rightarrow$ MD	0.684	11.793	<0.001	Supported
H3	FC $\rightarrow$ MD	-0.213	3.000	0.003	Supported
H4	FC $\rightarrow$ AF $\rightarrow$ MD	-0.419	7.906	<0.001	Supported

The findings demonstrate that all four hypotheses are supported. The strongest direct relationship is observed between Access to Finance and MSME Development ($\beta = 0.684$), highlighting the importance of financial accessibility for enterprise development. The significant negative relationship between Financial Challenges and Access to Finance ($\beta = -0.612$) indicates that financing barriers substantially restrict entrepreneurs' ability to obtain suitable financial resources. The significant indirect effect ($\beta = -0.419$) further demonstrates that Access to Finance partially mediates the relationship between Financial Challenges and MSME Development. The results support the proposed partial mediation model, in which financial challenges influence MSME development both directly and indirectly through access to finance.

DISCUSSION

The findings indicate that financial challenges play an important role in determining the ability of MSME entrepreneurs to access finance and subsequently develop their enterprises. The PLS-SEM results show a significant negative relationship between Financial Challenges and Access to Finance ($\beta = -0.612$, $p < 0.001$), suggesting that barriers such as high interest rates, collateral requirements, documentation and procedural difficulties can substantially restrict entrepreneurs' access to suitable financial resources. At the same time, Access to Finance has a strong positive effect on MSME Development ($\beta = 0.684$, $p < 0.001$), demonstrating that timely and adequate finance can support business expansion, working-capital management, technology adoption, revenue growth and market development. The direct

effect of Financial Challenges on MSME Development is also significant and negative ($\beta = -0.213$, $p = 0.003$), indicating that financial barriers can constrain enterprise development even beyond their effect on financing access. Importantly, the significant indirect effect ($\beta = -0.419$, $p < 0.001$) confirms that Access to Finance partially mediates the relationship between Financial Challenges and MSME Development. Thus, the findings suggest that reducing financing barriers and improving the availability, affordability and suitability of formal finance can contribute substantially to the development of MSMEs in Chennai. The results are consistent with earlier research emphasising the importance of financial accessibility and financing constraints in determining MSME performance and growth (Beck & Demirgüç-Kunt, 2006; Kumar & Rao, 2015; Maiti & Mishra, 2017).

FINDINGS OF THE STUDY

The study provides several important findings regarding the financial challenges faced by MSME entrepreneurs in Chennai. First, the correlation analysis confirms significant relationships among Financial Challenges, Access to Finance and MSME Development. Second, the PLS-SEM results establish that Financial Challenges have a significant negative effect on Access to Finance ($\beta = -0.612$, $p < 0.001$), indicating that greater financing barriers reduce entrepreneurs' ability to obtain suitable financial resources. Third, Access to Finance has a significant positive effect on MSME Development ($\beta = 0.684$, $p < 0.001$), highlighting the importance of adequate and timely finance for enterprise expansion, technology adoption, revenue improvement and market development.

Fourth, Financial Challenges have a significant negative direct effect on MSME Development ($\beta = -0.213$, $p = 0.003$). Finally, the mediation analysis confirms that Access to Finance significantly mediates the relationship between Financial Challenges and MSME Development ($\beta = -0.419$, $p < 0.001$), indicating partial mediation. Overall, the findings demonstrate that improving financial accessibility and reducing financing barriers are essential for strengthening the development potential of MSMEs in Chennai.

IMPLICATIONS OF THE STUDY

The findings have important implications for MSME entrepreneurs, financial institutions and policymakers. For entrepreneurs, improving financial literacy, maintaining proper financial records and strengthening credit profiles can improve their ability to access formal finance. Financial institutions should simplify documentation and loan-processing procedures and develop financing products that are appropriate to the cash-flow characteristics of MSMEs. Policymakers can strengthen MSME development by improving awareness of government financing schemes, reducing procedural barriers and promoting affordable credit and alternative digital financing channels. The significant mediating role of Access to Finance also indicates that policies should focus not only on reducing financial challenges but also on ensuring that available finance is adequate, timely, affordable and suitable for enterprise requirements. For MSME-support organisations, targeted financial education and credit-readiness programmes can help entrepreneurs navigate formal financing systems more effectively. Overall, improving the accessibility and usability of finance can strengthen the capacity of MSMEs to expand, adopt technology, generate employment and sustain their operations.

LIMITATIONS AND SCOPE FOR FUTURE RESEARCH

The study is subject to certain limitations. The research is confined to 145 MSME entrepreneurs in Chennai, and therefore the findings may not be generalisable to MSMEs operating in other

geographical regions or under different institutional conditions. The study also uses purposive sampling and relies on self-reported responses, which may introduce respondent-level perception bias. In addition, the cross-sectional design captures financial experiences at a particular point in time and does not establish long-term changes in MSME development. Future studies may employ larger samples and probability-based sampling across different cities, states or MSME sectors. Longitudinal research could further examine how changes in financing conditions influence enterprise development over time. Future research may also extend the PLS-SEM framework by incorporating variables such as financial literacy, FinTech adoption, government financial support, entrepreneurial capability and digital financial inclusion to provide a broader explanation of MSME financing and development.

CONCLUSION

Access to finance remains an important factor influencing the development and sustainability of MSMEs. The present study examined the financial challenges faced by 145 MSME entrepreneurs in Chennai and investigated the relationships among Financial Challenges, Access to Finance and MSME Development using PLS-SEM. The findings demonstrate that financial challenges significantly reduce access to finance, while better access to finance contributes positively to MSME development. Financial Challenges also have a significant direct negative effect on MSME development. Importantly, Access to Finance significantly mediates the relationship between Financial Challenges and MSME Development, confirming that financing accessibility is a key mechanism through which financial barriers influence enterprise outcomes. The study therefore highlights the need for affordable, timely and accessible financial services, simplified lending procedures, improved financial awareness and stronger institutional support for MSME entrepreneurs. Addressing these financing barriers can enhance the ability of MSMEs to invest, expand, adopt technology, generate employment and contribute more effectively to economic development.

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