

Unlocking Economic Landscape: Understanding the Dynamics of Financial Challenges, Business Traits, Financial Resources, Growth Phases, Financial Accessibility, and MSME Performance

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Abstract

Ease of access to finance serves as a driving force for the development of entrepreneurship. Entrepreneurship, in turn, has the capability to stimulate the creation of new employment opportunities. Sound financial access is crucial for supporting the sustainability and growth of the Micro, Small, and Medium Enterprises (MSMEs) sector. The objective of this research is to delve deeper into the challenges faced by MSMEs in accessing finance and analyze its influence on the business performance of MSMEs. The survey for this research was conducted on 324 MSMEs in the South Sumatra Province. The sample selected used the quota sampling technique. The research framework was developed and tested using a Structural Equation Model (SEM). The research findings indicate that business traits, financial resources, and growth phases of MSMEs have a significantly positive impact on financial access, while financial challenges have a negative impact that hinders the growth of MSMEs and affects overall MSME Performance.

Keywords: MSME performance, financial resource, financial accessibility, Business traits.

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Introduction

The main issue faced by Indonesian Micro, Small, and Medium Enterprises (MSMEs) is the challenge of financial access, which is a common concern in developing countries. According to the Financial Services Authority (OJK) of Indonesia reports that there are currently 65 million MSMEs in the country, contributing to 97% of the workforce and accounting for 14-15% of exports (Putri, 2023). Despite global economic slowdown reaching 3%, MSMEs continue to be the driver of economic growth in the second quarter of 2023 (Arifin et al., 2023). The significance of the role of MSMEs is further underscored by the data from the Ministry of Cooperatives and SMEs, recording 65.4 million MSMEs in Indonesia in 2019, employing 123,300 workers (Kemenkeu, 2023). The positive impact of MSMEs on

reducing the unemployment rate in Indonesia has been demonstrated (Kamsidah, 2022).

Nevertheless, the effects of the Covid-19 pandemic has posed serious challenges for MSMEs. A survey conducted by the United Nations Development Programme (UNDP) and LPEM UI revealed that over 48% of MSMEs faced issues related to raw materials, 77% experienced a decline in income, 88% saw a reduction in product demand, and 97% witnessed a decrease in asset value (Limanseto, 2022). The government responded with strategic policies, such as the National Economic Recovery Program (PEN), the Omnibus Law on Job Creation, and the Proud of Indonesian Products (BBI) program. The PEN program involved providing support for MSMEs by offering financing assistance such as the Business Credit for MSMEs (KUR), Productive Business Aid for MSMEs (BPUM), non-KUR interest/margin subsidies, MSME credit guarantees, investment and financing for cooperatives, and other various incentives (Supari & Anton, 2022).

Currently, MSMEs are experiencing a positive trend with their numbers continually increasing each year. This positive trend will have a beneficial impact on the Indonesian economy (Febriantoko et al., 2022). According to data obtained from the Ministry of Cooperatives and SMEs, MSMEs contribute 60.5% to the National GDP. This indicates that the existing MSMEs in Indonesia have great potential for further development, leading to a more significant contribution to the economy (D. Sari et al., 2023). As the state administrator, the government can assist MSME actors in fostering their development. The Indonesia government has supported MSMEs by providing KUR, accessed from banks in Indonesia. According to data from the Ministry of Cooperatives and SMEs, KUR grew from IDR 178.07 trillion or approximately 16.25% in 2020 to IDR 192.59 trillion or approximately 8.16% in 2021 (Permatasari & Gunawan, 2023). This also proves that MSME actors significantly require financing access to develop their businesses (Febriantoko et al., 2023). The government has also extended credit to micro-entrepreneurs in the lowest stratum who have not been facilitated by KUR through non-bank financial institutions. Based on data from the Public Service Agency (BLU) of the Government Investment Center (PIP), Loans for Micro Businesses (UMi) totaling IDR 26.2 trillion were disbursed between 2017 to 2022, benefiting 7.4 million borrowers. This indicates that numerous micro-entrepreneurs have yet to receive assistance from KUR (Handoyo et al., 2021).

According to data from the Association of Indonesia Joint Financing based on Fintech (AFPI), in 2020, approximately 46.6 million out of 64 million MSMEs in Indonesia lacked access to financing from banks or non-bank financial institutions. (Wibowo & Aumeboonsuke, 2020). The financing challenges faced by MSMEs becomes the foundation for the government to provide support through other financing facilities, such as partnership and society and environment development programs (PKBL), Loans for Women running Micro Business (PNM Mekaar), a cooperative running business as a sharia financial institution (Bank Wakaf Mikro), and Ultra Micro Financing (UMi) through non-bank financial institutions. The challenge in this study is to observe what MSMEs in obtaining financial resources and the subsequent effects on MSME performance. This research aims to answer the following research questions: (1) How do business traits, financial challenges, financial resources, and growth phases of MSMEs affect financial accessibility?; (2) What is the impact of business traits, financial challenges, financial resources, and growth phases on performance of MSMEs?; and (3) To what extent does financial accessibility affect the performance of

MSMEs?.

This research identifies the key role of the government in facilitating financial access for MSMEs, impacting their performance (Mayasari, Ariyanti, et al., 2023). Various policies, such as loan schemes, subsidies, and tax incentives, have been implemented to support sustainable growth and encourage new entrepreneurship (Hadi et al., 2023). Financing for MSMEs, a vital element in government policies, is still dominated by informal financing sources (Widiastuti et al., 2021). Bank loans, non-bank financial institutions, and venture capital remain primary sources, but MSMEs have increasingly looked for formal financial sources to reduce the dependence on informal financing (Esubalew & Raghurama, 2023; Susan, 2023). Limited access to credit continues to be a major obstacle for MSMEs (Banerjee, 2018; Utami & Setiawan, 2023). The President of Indonesia targets 30 million MSMEs to utilize digital development by 2024, promoting integration into the global market, especially through the Global Value Chain (GVC) and Global E-Commerce (GEC). The contribution of MSMEs in exports continues to rise, reaching 15.69% in 2021 (Rahayu et al., 2023). Future challenges involve aspects of innovation, digital literacy, financing, branding, human resources, and others (Agarwal & Ojha, 2023).

Significantly, this research has the potential to provide valuable insights to guide government policies in addressing the financial challenges of MSMEs. The implementation of cutting-edge technological interventions is expected to enhance financial access and stimulate entrepreneurship in Indonesia, contributing to the resolution of economic issues such as unemployment, poverty, income inequality, and low economic growth (Mayasari, Putra, et al., 2023).

According to Law Number 20 of 2008, MSMEs are classified based on annual assets and revenues. Rational Choice Theory states that Business Traits significantly influence the dimensions of demand and supply for accessing service of finance (Ariyanti et al., 2022). Prior studies have extensively recognized that a company's attributes significantly impact its ability to secure financial support. As an illustration, the age of a company reflects the organization's ability to withstand challenging market conditions. Due to a shortage of financial resources, younger companies face a higher risk of failure in navigating challenging economic conditions (Lal & Unny, 2023).

MSMEs tend to have relatively limited access to financing compared to larger enterprises (Tian, 2018). (Singh, 2018) stated in his research the fact that established local presence and potent connections that MSMEs have cultivated with local stakeholders facilitate more straightforward access to financial support. The size of the company is a crucial factor; companies with more substantial assets are inclined to opt for long-term debt. Therefore, companies with significant investments that are adequately diversified tend to be unable to compete, allowing them to sustain their high debt ratio and causing them to be less vulnerable to failure. (Johannesson et al., 2023) stated that small enterprises consistently encounter obstacles when compared to businesses of medium or large size. Thus, from the literature, it is obvious that the main determinants of a firm's financial difficulties include its scale, age, and possession arrangement. (Hanggraeni et al., 2019)

The Asian Development Bank has identified financial access as the primary constraints commonly experienced by MSMEs in Indonesia, followed by the need for collateral, rigid policies, high interest rates, complex processes, and a lack of financial knowledge about

relevant schemes among some entrepreneurs (Saifurrahman & Kassim, 2023). The presence of obstacles to their access that negatively impacts financing. (Soetjipto, Handayati, et al., 2023). Several studies have examined these factors, confirming their adverse effects on the MSME growth. Insufficient access to non-financial inputs, limited financial access, and high costs are the three main barriers hindering MSME growth. (Y. R. Sari & Rani, 2023) revealed that MSMEs in Indonesia still face challenges, including limited access to financing, digital readiness, and marketing access. According to (Rahadian & Thamrin, 2023) Government regulations, financial crises, and interest rates are statistically significant barriers that have a negative relationship with easy access to financial resources. (Dela Cruz et al., 2023). MSMEs report that finance is a significant obstacle for them, as they tend to obtain loans after much struggle. The most frequently discussed issue in the literature is the financial challenges faced by MSMEs (Dong et al., 2014; Kelkar & Ramachandran, 2023).

MSMEs face challenges in selecting various financial resources according to the services offered by financial institutions (Resmi et al., 2022b). The rational choice theory for financial service demand encompasses (i) the need for financial services, (ii) the characteristics and varieties of services offered by financial institutions, and (iii) the terms and conditions of those services. The selection of financial resources by each SME can also be elucidated by the bounded rationality theory, where rationality is limited when an MSME makes decisions due to the consistency of decision problems, limitations in cognitive thinking, and the time available for selecting the appropriate financial resources (Anatan, 2023). For external financing, MSMEs typically have a quite high demand (especially loans) to support their growth because internal funding is insufficient to meet the demand of these companies. Despite various financial constraints, banks remain the primary provider of external financing for MSMEs, as they rely on banks more than large corporations (Charfeddine et al., 2024). There are various external financial resources available for MSME entrepreneurs. MSMEs often rely heavily on direct loans to meet their investment and cash flow needs (Sharma & Bajaj, 2023). Also, due to regulatory constraints on the financial market, MSME managers often cannot easily obtain financing sources as additional new capital. Thus, financial access varies based on each financial resource available to MSMEs (Febriantoko et al., n.d.). The government and regulatory institutions have provided guided loans, incentives, subsidized loans, and grants to create a supportive platform and encourage MSMEs. However, they still face issues related to financial resources. Difficulty in financial resources has been widely experienced by MSMEs (Bhatti et al., 2022).

Organizations go through growth stages similar to those that occur in humans, involving birth, maturity, change, and even death (Ariani et al., 2024). The organization needs to go through several stages during its development over a specific period (Utama et al., 2024). During this period of transformation, companies not only increase in size but also improve their procedures and frameworks to align with the needs of both internal and external environments (Jatmiko et al., 2022). The concept of 'growth phases of an MSME' encompasses the different stages that MSMEs may experience from their inception. In earlier theories, growth phases have been characterized by multiple stages, spanning from two to thirty-three. (Mehta & Sharma, 2023). Various prior studies present growth phases of an MSME, such as. They describe the stages of the MSME growth based on observations of birth, youth, and maturity. (Mehta et al., 2023) observe creativity and entrepreneurship,

collectivity, formalization, and adaptation stages. Meanwhile, (Hartman & Kear, 2024) focused on research related to entrepreneurship, collectivity, formalization, and elaboration stages. Observation focus related to start-up, survival, growth, and sustenance is carried out by (Kapadia & Madhav, 2016). In the same year, (Bhatt & Kumar, 2022) describing the growth phases of an MSME that consist of four stages, namely development, commercialization, growth, and expansion. A successful MSME in its life cycle stage is likely to progress to the next stage. Generally, MSMEs experience a higher mortality rate in the early stages, primarily due to poor practices. (Kumar & Aliami, 2023)

Financial accessibility is known as credit access, which means the company's capacity to obtain financial services, including insurance, credit, payments, deposits, and other services related to risk management (Herdinata et al., 2024a). Finance is the lifeblood of every business; timely financial accessibility can make a business thrive, or conversely, it can lead to its immediate demise (Mansoor et al., 2024). Financial accessibility is considered a significant challenge for a start-up if it relies on banks or formal financial institutions (Aleemi et al., 2023). They are often overlooked by banks because their companies cannot obtain financial reports. A collateral requirement is also a crucial factor influencing financial accessibility. MSMEs are considered "unwanted borrowers" because it is difficult for them to provide high-quality collateral (Jatmiko et al., 2022). All stages of the growth phases of an MSME are greatly influenced by their ability to access finance. Financial access provides opportunities for small businesses to make profitable investments, which, in turn, contribute to economic growth and poverty alleviation in developing countries (Sipahi, 2020a). In the list of variables, financial accessibility ranks third as a determinant of the financial growth of MSMEs in developing countries (Hean & Jabas, 2024). Financial constraints lead to limited investment opportunities and stagnant growth. For MSMEs, financial accessibility is widely considered a critical factor that helps maintain their day-to-day operations. It allows them to seize long-term investment opportunities and promotes targeted development (Fanta & Makina, 2016; Y. W. Sari et al., 2023a).

MSME performance focuses on the performance of a company, where not only its financial stability and effectiveness are measured but also considering its performance in relation to the market in which the company operates (Antunes et al., 2024). In assessing company performance, several measures are adopted, including common measures and ratios such as liquidity ratios, sales growth, stock prices, capital adequacy, profit margin, revenue, return on assets, and return on equity (Gaspar et al., 2022). Financial access, whether short-term or long-term, typically depends on the performance of MSMEs. A survey among women-owned businesses in African and Middle Eastern nations found that insufficient financial access is a notable factor contributing to severely lacking MSME performance (Cunningham et al., 2023). Inadequate financial access affects MSMEs' inability to purchase sufficient raw materials to obtain high-quality products or services that meet global standards or requirements. This also causes MSMEs to struggle in achieving their performance objectives (Sonar et al., 2023). In particular, small businesses frequently encountering restricted financial access also undergo sluggish growth. Mentioned that predicting the performance of MSMEs is a crucial research area because their failures are costly and disrupt various stakeholders of the companies, including investors, the community, and the economy (Handayati et al., 2023). Based on the above discussion, five key factors affecting MSME

performance can be outlined: (1) Business Traits, (2) Financial Challenges, (3) Financial Resource, (4) Growth Phases of an MSME, and (5) Financial Access

Based on previous research, the hypotheses arising from this study are as follows:

H1a: Financial challenges have a significant negative impact on financial accessibility.

Various sources of external financing are available for businesses that have stabilized and complied with banking regulations. In general, loans from banks are a frequently used as capital access for many MSMEs and new entrepreneurs (Susan, 2023). However, due to constraints in the financial market, MSME owners often struggle to easily obtain new equity financing (Kusumasari & Retnandari, 2021). Therefore, financial access differs based on the financial accessibility available to MSMEs. The "financial accessibility" factor is measured using five items, namely personal funds/savings, private banks, public sector banks, cooperative banks, and money lenders. Therefore, the first hypothesis aims to examine the relationship among various financial resources with the financial access of MSMEs.

H1b: Financial challenges have a significant negative impact on MSME Performance.

Financial challenges encompass the ability to engage in financial planning and make informed decisions in managing one's wealth, debts, and assets (Sahoo & Behera, 2018). Financial challenges represent the proficiency in financial management to ensure greater prosperity in the future. Previous research findings indicate a notable influence of financial challenges on the performance of MSMEs (Bhalla et al., 2024). Financial challenges are crucial for MSMEs to make informative financial decisions and navigate the complex financial landscape. However, many MSME owners possess limited financial knowledge and skills, which may impede their ability to access financial services (Bravo-Ortega et al., 2023).

H2a: Business traits have a significant positive impact on financial accessibility.

Financial access for MSMEs faces barriers measured through five variables: high-interest rates, government regulations, collateral requirements, lengthy procedures and documentation, and lack of awareness about available schemes (Yuneline & Suryana, 2020). The second hypothesis seeks to verify the perceived relationship among the identified financial challenges and financial access. As financial challenges indicate negative factors, it is assumed that these challenges will have an adverse impact on the financial access of MSMEs (Alexandri et al., 2021).

H2b: Business traits have a significant positive impact on MSME Performance.

The success of a business is also closely tied to entrepreneurial characteristics becoming the key to maximize efficiency, as it enables MSMEs to think more positively and foster

creativity (Rajamani & Rekha, 2023). Business development is influenced by entrepreneurial characteristics and capital. Entrepreneurial characteristics are crucial because business operators exhibit behaviors that can create innovative breakthroughs to maintain the stability of MSME performance.

H3a: Financial resources have a significant positive impact on Financial Accessibility.

The life cycle stages of MSMEs vary in relation to their financial needs (Singh, 2018). The company's life cycle is influenced by the choice of financial resources. Various strategies adopted by MSMEs in fulfilling their financial needs as they progress through various stages in their life cycle. MSMEs and startups have insufficient internal financial support to sustain growth, and therefore, due to constraints in the financial market, they struggle to easily obtain new equity financing (Soetjipto & Restuningdiah, 2022). Thus, contrary to conventional beliefs, debt is crucial for growth in the early stages of these companies (Ferrata, 2019). Financial access increases during the maturity stage, thereby accelerating the growth rate of the company. There are four stages assessed in the growth phase of MSMEs, namely: commercialization, development, maturity/expansion, and growth.

H3b: Financial resources have a significant positive impact on MSME Performance.

Financial resources, as access to suitable financial products including credit, savings, insurance, and payments, are provided with quality access, including convenience, affordability, suitability, and considering consumer protection, and such availability is also extended to everyone (Soetjipto, Utaberta, et al., 2023). Improving financial resources can enhance awareness and understanding of financial products and services, simultaneously increasing demand and usage. The performance of MSMEs supported by financial knowledge has a direct positive relationship with loan management (Resmi et al., 2022). Fundamentally, financial resources encompass all efforts aimed at eliminating any barriers to community access to financial services at an affordable cost (Wu, 2024)

H4a: Growth Phases of an MSME have a significant positive impact on Financial Accessibility.

Financial access and credit regulation are significant challenges for the growth of MSMEs (Berisha et al., 2024). Companies without credit constraints experience faster growth compared to credit-constrained companies (Fowowe, 2023). Previous research has confirmed that financial access has a significant impact on a company's performance (Kurdi et al., 2023). The financial access of companies is measured through five items, namely loan offerings without collateral, reasonable interest rates, government-guarantee loan schemes, flexibility in payment schedules, and fast financing with simple documentation. This hypothesis verifies the relationship between financial access and the performance of MSMEs.

H4b: Growth Phases of an MSME have a significant positive impact on MSME Performance.

The development of MSMEs has significant implications for economic growth and poverty alleviation, as it can stimulate economic activities across various sectors. Several studies have explored the relationship between MSME performance and economic growth. In their study in Indonesia, (Kurdi et al., 2023), found that MSMEs contribute significantly to economic growth and poverty reduction. This study identified factors that positively influence MSME performance, including access to credit, training, and market information. Therefore, MSMEs are crucial for job creation and poverty alleviation. The study identified factors such as access to finance, technology, and infrastructure that positively impact MSME performance (Utama et al., 2024)

H5: Financial accessibility has a significant positive impact on MSME Performance.

The economic development of Indonesia, resulting from the increasing contribution of MSMEs, raises concerns for all stakeholders in the MSME sector - banks, entrepreneurs, and government organizations - in ensuring timely financial access for growing businesses (Kesa & Pranita, 2021). MSME performance is measured through increased production volume, enhanced sales turnover, and profit growth, in addition to its relative performance compared to competitors and overall business performance (Kumar & Aliami, 2023)

Research Design and Method

The aim of this research study is to analyze the fundamental factors influencing financial access and impacts on MSME performance. The survey instrument employed in this study comprises six factors with 28 items. The six research factors include business traits, financial challenges, financial resource, growth phases, financial accessibility, and MSME performance. The questionnaire survey was obtained from self-administered responses using a five-point Likert scale ranging from "strongly disagree" to "strongly agree". The sample size was limited to 324 MSMEs in South Sumatra Province.

The South Sumatra Province was chosen for this study. The study was carried out across various industrial units located in regencies and cities within the South Sumatra Province. The impact of financial access on MSME performance was examined using path analysis and measurement model. The data collection took place from August 2023 and October 2023. The questionnaires were distributed to various experts and academics working in this field to evaluate the content validity of the instrument. A final draft was prepared after integrating the recommendations provided by the experts. A pilot study was conducted with a structured questionnaire. The survey was carried out in person. After being contacted via email, telephone, or in person, the survey was responded to by MSMEs. MSMEs were selected from the population through the quota sampling technique (a non-probability sampling technique) (Siswoyo et al., 2020; Susilowati et al., 2021). The final sample consisted of 324 MSMEs. The verification of data distribution involved plotting a Q-Q diagram and performing two normality statistical tests, Kolmogorov-Smirnov and Shapiro-Wilk, both

confirming the normal distribution of the data. The development of a conceptual model was conducted in this study for verification and test the hypothesized relationships among the selected variables please translate in Indonesian.

Table 1. Measurement of Variable

Variables	Indicators / Items	Major References
Financial Challenges (X1)	Government regulations (FC1) High-interest rates (FC2) Lack of information about accessible schemes (FC3) Collateral requirements (FC4) Lengthy procedures & documentation (FC5)	(Susan, 2023) (Kusumasari & Retnandari, 2021). (Sahoo & Behera, 2018), (Bhalla et al., 2024), (Bravo-Ortega et al., 2023)
Business traits (X2)	Type of the firm (BT1) Size of the firm (BT2) Location of the firm (BT3) Traits of the enterprise (BT4) Stage of the enterprise (BT5)	(Yuneline & Suryana, 2020), (Alexandri et al., 2021), (Rajamani & Rekha, 2023)
Financial resource (X3)	Personal funds/savings (FR1) Government schemes (FR2) The loans from financial institutions (FR3) The loans from moneylenders (FR4)	(Singh, 2018), (Soetjipto & Restuningdiah, 2022), (Ferrata, 2019), (Kusuma et al., 2023), (Soetjipto, Utaberta, et al., 2023), (Resmi et al., 2022a), (Wu, 2024).
Growth Phases of an MSME (X4)	Conception/Development stage (GP1) Commercialization stage (GP2) Growth stage (GP3) Maturity stage/Expansion stage (GP4)	(Berisha et al., 2024), (Fowowe, 2023), (Kurdi et al., 2023), (Kurdi et al., 2023), (Utama et al., 2023).
Financial accessibility (X5)	Loans without collateral (FA1) Affordable interest rates (FA2) government-guarantee loan schemes (FA3) Adaptable payment schedule (FA4) Rapid financing with simple documentation (FA5)	(Herdinata et al., 2024), (Mansoor et al., 2024), (Aleemi et al., 2023), (Jatmiko et al., 2021), (Sipahi, 2020), (Y. W. Sari et al., 2023).
MSME Performance (X6)	Growth in output capacity (MP1) Increase in Sales turnover (MP2) Growth in profit (MP3) Competitor benchmarking (MP4) Comprehensive business performance (MP5)	(Antunes et al., 2024b), (Gaspar et al., 2022b), (Cunningham et al., 2023), (Arini & Yastica, 2023), (Kesa & Pranita, 2021), (Kumar & Aliami, 2023)

Results and Discussion

Statistical Result

The data in this research were analyzed using the SmartPLS software, which is considered suitable for estimating path models that involve latent constructs with multiple indicators. It can assist in obtaining latent variable values for predictive purposes. Its evaluation comprises an assessment of the inner model (structural model) and outer model (measurement model).

The Measurement Model Evaluation is used to assess the relationship among constructs and their indicators. This evaluation consists of two components: convergent validity and discriminant validity. The convergent validity can be evaluated through three stages: indicator validity, construct reliability, and the Average Variance Extracted (AVE) value. Meanwhile, the discriminant validity can be assessed through two stages: examining cross-loading values

and subsequently comparing the correlation among constructs and the square root of AVE. Loading factor and t-statistics were obtained from the SmartPLS output after eliminating factor loading that was less than 0.7.

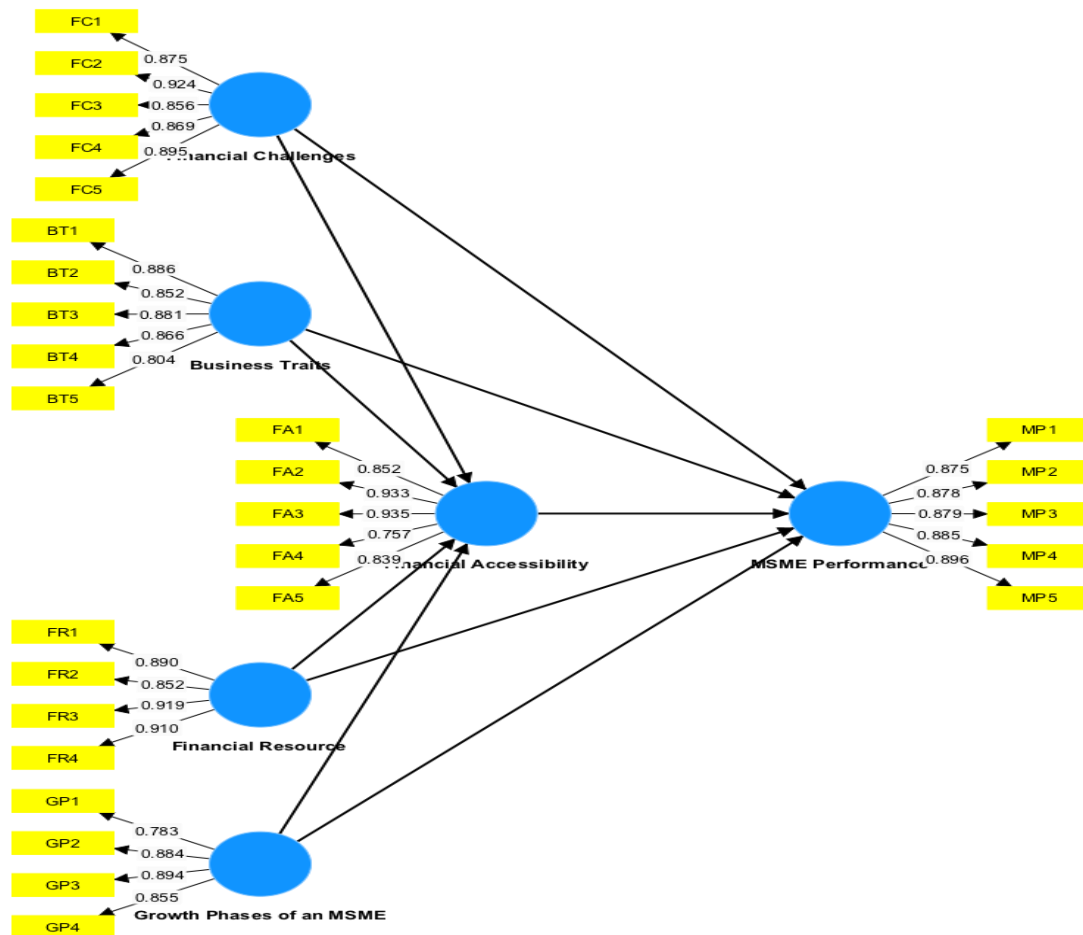


Figure 1. Factor Loading

Table 2. Outer Loading

Variabels	Indicators	Outer Loading
Financial Challenges	FC1	0,875
	FC2	0,924
	FC3	0,856
	FC4	0,869
	FC5	0,895
Business Traits	BT1	0,886
	BT2	0,852
	BT3	0,881
	BT4	0,866
	BT5	0,804
Financial Resource	FR1	0,890
	FR2	0,852
	FR3	0,919
	FR4	0,910
Growth Phases of an MSME	GP1	0,783
	GP2	0,884
	GP3	0,894
	GP4	0,855

Financial Accessibility	GP4	0,855
	FA1	0,852
	FA2	0,933
	FA3	0,935
	FA4	0,757
MSME Performance	FA5	0,839
	MP1	0,875
	MP2	0,878
	MP3	0,879
	MP4	0,885
	MP5	0,896

From the SmartPLS output for the Outer Loading above, there are no indicators with values less than 0.7. This implies that all dimensions and indicators have been deemed valid. Subsequently, regarding Construct Reliability, the results show that Cronbach's alpha from the SmartPLS output is presented in Table 3.

Tabel 3. Cronbach's Alpha

	Cronbach's Alpha	rho_A	Composite Reliability
Financial Challenges	0,930	0,935	0,947
Business Traits	0,910	0,914	0,933
Financial Resource	0,915	0,918	0,940
Growth Phases of an MSME	0,878	0,900	0,916
Financial Accessibility	0,915	0,924	0,937
MSME Performance	0,929	0,930	0,946

The output results of Cronbach's Alpha in the table above indicate that all research variables have Cronbach's Alpha values above 0.7. Therefore, all variables meet the reliability criteria.

The evaluation of the Structural Model (Inner Model) was conducted after the measurement evaluation was met by examining R-square, a test of the goodness-of-fit model (to see how the exogenous variables collectively can explain the endogenous variable). Furthermore, to assess the significance of the hypothesized influence was done by examining the parameter coefficients and the significance values of the t-statistics. The Structural Model Testing and Mediation Test were conducted by examining R-square, and the output results of SmartPLS using the calculate-PLS algorithm are as shown in Table 4.

Tabel 4. R-Square

	R-square	R-square adjusted
Financial Accessibility	0,696	0,693
MSME Performance	0,503	0,495

The R-square results in Table 4. indicate that the simultaneous influence of the Financial Challenges (X1), Business Traits (X2), Financial Resource (X3), and Growth Phases of an MSME (X4) on the Financial Accessibility variable (M) is 0.696. Subsequently, the simultaneous influence of the Financial Challenges (X1), Business Traits (X2), Financial

Resource (X3), Growth Phases of an MSME (X4), and Financial Accessibility (M) on MSME Performance (Y) is 0.503.

The Significance Test of Influence was conducted using the calculate-PLS Bootstrapping. The output results from SmartPLS are presented in Table 5.

Tabel 5. Path Coefficients (Mean, STDEV, T-Values)

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ((O/STDEV))	P values
Business Traits → Financial Accessibility	0.215	0.213	0.069	3.118	0.000
Business Traits → MSME Performance	0.742	0.749	0.091	8.125	0.000
Financial Accessibility → MSME Performance	0.222	0.223	0.087	2.550	0.011
Financial Challenges → Financial Accessibility	-0.171	-0.171	0.059	-2.883	0.004
Financial Challenges → MSME Performance	-0.298	-0.301	0.064	-4.644	0.000
Financial Resource → Financial Accessibility	0.268	0.271	0.073	3.669	0.000
Financial Resource → MSME Performance	-0.192	-0.196	0.080	2.393	0.017
Growth Phases of an MSME → Financial Accessibility	0.456	0.458	0.056	8.141	0.000
Growth Phases of an MSME → MSME Performance	-0.154	-0.150	0.076	2.031	0.043

The analysis and evaluation of Structural Model from the calculate-PLS Bootstrapping result is illustrated by Figure 2.

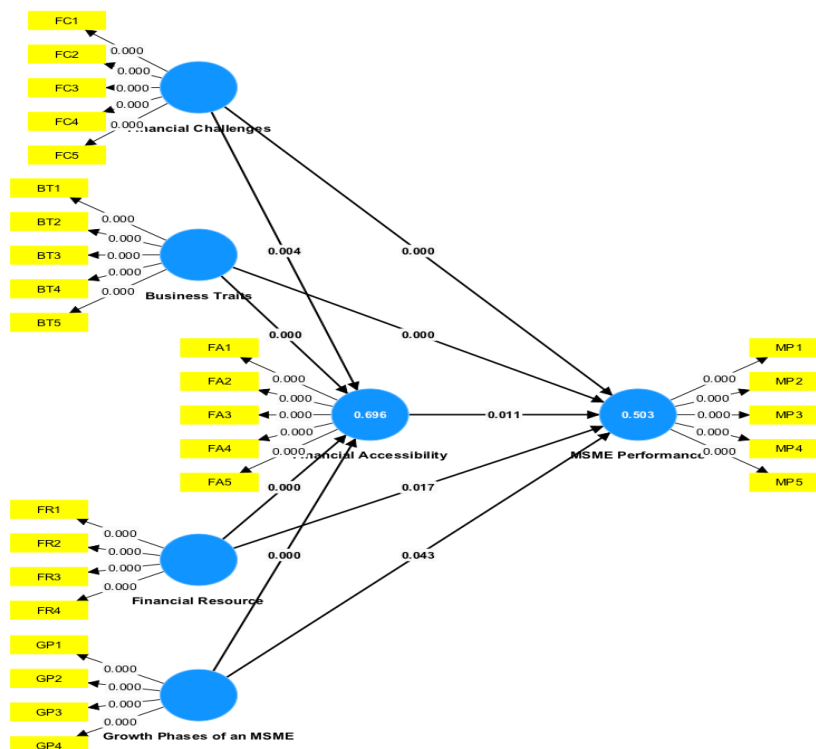


Figure 2. Structural Model

Discussion

Based on the data analysis in this study, it can be inferred that financial challenges have a significant negative impact on financial accessibility. This result is consistent with the research conducted by (Kusumasari & Retnandari, 2021). Additionally, the study conducted by (Susan, 2023) also supports the findings of this research, indicating that bank loans pose financial challenges for many MSMEs. Furthermore, financial challenges have a significant negative impact on MSME Performance. This finding aligns with the research conducted by (Sahoo & Behera, 2018). Additionally, the study conducted by (Bravo-Ortega et al., 2023) also supports these findings, indicating that the limited knowledge and skills of MSME owners regarding finance hinder the performance of MSMEs. This result regarding these variables implies that the higher the financial challenges for MSMEs, the more it can reduce financial access, resulting in a decline in MSME performance.

Business traits have a significant positive impact on financial accessibility. This result aligns with the research conducted by (Alexandri et al., 2021). Additionally, the study conducted by (Yuneline & Suryana, 2020) it backs up these results by suggesting that the financial access of MSMEs is assessed using five factors: governmental regulations, elevated interest rates, insufficient awareness of diverse available schemes, collateral prerequisites, and prolonged procedures and documentation. Business traits also have a significant positive impact on MSME Performance. This finding is consistent with the research conducted by (Rajamani & Rekha, 2023). This result assesses the success of a business, which is inseparable from entrepreneurial characteristics, to maintain the stability of MSME performance. Based on this research, supported by previous studies, to enhance the performance of an MSME requires encouragement from various aspects, such as business identity and ease of financial access.

The role of financial resources from MSMEs has a significant positive impact on financial accessibility. The financial resources referred here include personal funds/savings, government schemes, loans from financial institutions, and loans from moneylenders. This result is consistent with the research conducted by (Singh, 2018). Additionally, the study conducted by (Soetjipto & Restuningdiah, 2022) also supports these findings, indicating that MSMEs have insufficient internal financial support to sustain their growth. The findings of the research by (Ferrata, 2019) suggest that financial access increases during the maturity stage, thereby accelerating the growth rate of the business. Based on the data analysis results in this study, it is also found that financial resources have a significant positive impact on MSME Performance. This result aligns with the research conducted by (Ferrata, 2019). Furthermore, the study conducted by (Resmi et al., 2022) supports these findings, indicating that the performance of MSMEs supported by financial knowledge has a direct positive relationship with loan management. Financial resources can maximize their support for MSME performance if they are complemented by good financial accessibility.

The Growth Phases of an MSME, representing the developmental stages in the evolution of MSMEs, have a significant positive impact on Financial Accessibility. This result aligns with the research conducted by (Fowowe, 2017). Additionally, the study conducted by (Berisha et al., 2024) supports these findings, indicating that financial access and credit regulation pose significant challenges to the growth of MSMEs. Previous research has confirmed that financial access has a significant impact on the performance of a company

(Fowowe, 2023). Through strategic policies implemented by MSME managers, there is an opportunity to enhance access to capital more effectively. Growth Phases of an MSME also have a significant positive impact on MSME Performance. This result is consistent with the research conducted by (Kurdi et al., 2023). Furthermore, the study conducted by (Utama et al., 2024) supports these findings, indicating that factors such as access to finance, technology, and infrastructure have a positive impact on the performance of MSMEs.

This research reveals that Financial Accessibility has a significant positive impact on MSME Performance. This finding is consistent with the study conducted by (Kesa & Pranita, 2021). Additionally, the research conducted by (Kumar & Aliami, 2023) supports this finding, indicating that the performance of MSMEs is measured through increased production volume, sales turnover, profit growth, relative performance compared to their competitors, and overall business performance. Based on the comprehensive results of this study, it can be concluded that Business Traits, Financial Resource, Growth Phases of an MSME, and Financial Accessibility contribute to the improvement of MSME Performance. These factors can support the creation of resilient MSMEs capable of withstanding various financial pressures in their business operations. Moreover, business practitioners must also navigate financial challenges such as government regulations, high-interest rates, lack of information about accessible schemes, collateral requirements, and lengthy procedures to sustain their business performance. Financial constraints result in restricted investment prospects and stagnant growth (Febriantoko, 2024).

Conclusions

The extrinsic value of the findings of this research lies in providing empirical evidence on the impact of financial challenges in financial accessibility on MSME performance and offering useful recommendations for enhancing their performance, sustainability, and reducing failure rates in developing countries like Indonesia. The political, economic, and technological environments vary to a greater extent from one developing country to another, also influencing financial access for MSMEs. However, beyond these environmental factors, the selected variables (i.e., business traits, financial challenges, financial resources, and growth phases of an MSME) also play a crucial role in all developing countries. The results of this research underscore the importance of financial access for the growth of emerging entrepreneurs, revealing that financial challenges have a negative impact, and business traits have a positive impact on financial access.

Therefore, policymakers in Indonesia should seek ways to swiftly eliminate or reduce financial challenges so that MSMEs can easily access financing, regardless of their attributes and life cycle stages, to address the credit gap. Despite various schemes introduced by the Indonesian government to address the credit gap, the gap continues to widen due to information asymmetry between MSMEs and financial institutions. Further research on this theme can be deepened by identifying the factors that drive and hinder the performance of MSMEs in developing countries like Indonesia.

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