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Financial constraints: Its impact on access to financing of micro, small, and medium businesses in Calapan City

Shyla Marie Abairo Cruzado *, Imee Dhell Mutya Dimaano, Ritchelle Lou Libante Manahan, Jasmine Celerio Medes and Russell Villena Villarma

Department of Business Administration, School of Business, Hospitality, and Tourism Management, Divine Word College of Calapan, Oriental Mindoro, Philippines

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Abstract

Micro, small, and medium-sized enterprises (MSMEs) play an important role in a country's progress, particularly in the Philippines. Lack of access to finance has been identified as the most severe hindrance to MSMEs' growth and development. Thus, the purpose of this study is to evaluate the awareness of MSMEs in accessing finances and know their capacity to handle financial constraints. The factors discussed were the structure of the financial sector, awareness of funding opportunities, collateral requirements, and small business support services. The research focused on a sample size of 363 MSMEs. The research design of this study is quantitative since the research questions seek to answer and lead to numerical data. The researchers used a descriptive research method as it seeks to ascertain if there is a significant relationship between financial constraints and MSMEs' access to finance in Calapan City. Self-structured questionnaires were used to collect the primary data. By examining the factors or indicators of the study, the researchers found that financial constraints such as collateral requirements, small business support services, the structure of financial institutions, and awareness of funding opportunities, had a significant relationship towards accessing finance of MSMEs in Calapan City. Therefore, the study suggested that MSMEs should look for a financial institution that provides loan products and services that are consistent with their demands for business funding. Business owners should improve their financial management abilities by attending government-provided training and seminars. Further studies are highly recommended to discover other factors affecting MSMEs' financing access.

Keywords: Financial Constraints; Debt Financing; Equity Financing; Msmes; MSMEs; Access to Finance

1. Introduction

Micro, small, and medium enterprises (MSMEs) play a significant role in the growth of a country, particularly in the Philippines. The Philippines is home to 99.51% of MSMEs. They promote economic development in rural and outlying areas. They are valuable partners for large enterprises because they are suppliers and providers of support services. A thriving MSME sector is thus a sign of economic growth and stability. However, not all MSME owners can run and sustain the growth of their businesses for a variety of reasons. One of these reasons is a lack of financial access and the awareness of businesses in accessing finances. The most serious impediment to the growth and development of MSMEs has been identified as a lack of access to finance. Manasseh (2004) as cited by Osano and Languitone (2016) posted the idea that small and medium-sized businesses continue to face several constraints to bank financing due to a lack of collateral requirements, the structure of the financial sector, awareness of funding opportunities, and small business support service.

Access to finance means that small businesses can have good physical access to lenders who want to lend, but borrowing is impractical due to the cost and suitability of products. A lack of finance is widely acknowledged as an obstacle to the

* Corresponding author: Shyla Marie Abairo Cruzado

expansion of small businesses, (Chowdhury et al. 2017). Several MSMEs need help to raise capital from banks and other sources to launch, innovate, expand, and develop their enterprises due to inadequate access to funding. To achieve sustainable growth in businesses, improving the general business environment and, more importantly, improving access to finance is necessary.

The researchers considered various ideas, including the Information Asymmetry Theory, the Pecking Order Theory, the Financial Inclusion Theory, and the Financial Intermediation Theory. These theories are related and serve as support for factors and indicators of this study. This study addresses the problem of MSMEs on access to finance for them to invest, run, and sustain their businesses. It also addresses the awareness of small business owners in accessing finances and their capacity to handle financial constraints. To understand the impact of financial constraints on their businesses, such as collateral requirements, small business support services, the structure of the financial sector, and awareness of funding opportunities, researchers conducted a study in Calapan City Oriental Mindoro to see if the same problem mentioned above is also the problem that MSMEs face. This research study also has a deficiency in terms of its respondents because it mainly focuses on micro, small, and medium-sized businesses in Calapan City, Oriental Mindoro. The significance of this study for the target audiences is that they will be aware of the financial challenges they will encounter when starting their own business, and through this research study, they will have ideas and alternative solutions on how to access finance to manage, maintain, and expand the enterprise.

The problem of access to finance by MSMEs is to reduce the number of MSMEs collapsing. Most of the research focused on factors that influence access to finance of small, and medium enterprises but studies on the financial constraints and access to finance are limited, and the current study aims to fill this gap. Thus, this study aimed to find out how the financial constraints affect access to finance of MSMEs; assess the awareness of MSMEs in accessing finances and know their capacity to handle the said financial constraints, and give alternative solutions or shed some light on how the issue of access to finance would be addressed to reduce the number of MSMEs that fail.

2. Review of Related Literature

2.1 Financial Constraints

Financial constraints are defined as factors that limit the amount or availability of investment options for an individual or business. According to Cherchye et al. (2020), it is often distinguished as an inelastic supply of external finance, which is insinuated as a constraint on firm decisions whenever internal financing is insufficient [4]. Financial constraints have a quite significant impact on businesses. The MSMEs have encountered several constraints on the financial institutions that limit their access to the financial products they need. MIC (2007), as cited by Osano and Languitone (2016), posted the idea that the constraints faced by small businesses correspond with a lack of clear financial plans, higher rates of interest, and a lack of accounting documentation and collateral requirements [18]. Furthermore, the study of Osano and Languitone (2016) in Mozambique discussed that financial constraints weigh down MSMEs, and many of their businesses collapsed during the first year of their start-ups because of the insufficiency of financial resources [18].

According to the study entitled “Factors Influencing Access to Finance by SMEs in Mozambique: Case of SMEs in Maputo Central Business District (Hezron Mogaka Osano and Hilario Languitone, 2016)”, the indicators of financial constraints that affect access to finance for Micro, Small, and Medium Enterprises are collateral requirements, small business support services, the structure of the financial sector, and awareness of funding opportunity [18].

2.2 Collateral Requirements

One of the conditions of borrowing money from a bank is the requirement of providing an asset or property to the lender to receive the loan, known as collateral. This serves as a security in case the borrower becomes delinquent. Based on the study of Osano and Languitone (2016), the results of their research found that collateral creates a hindrance to MSMEs acquiring bank financing, and they are also discriminated against by banks for lending them as it is viewed as high risk. IFC (2009), as cited by Babu (2017), posted the idea that due to poor credit quality, a lack of credit history, high transaction costs, and a lack of collateral, small businesses find it difficult to obtain credit from banks and other financial institutions [25]. According to Saifi (2021), one of the main problems faced by MSMEs in Palestine is having insufficient access to credit facilities and financial institutions due to the stringent collateral requirements [22]. Based on the research paper “Challenges Facing Micro and Small Enterprises in Accessing Credit Facilities in Kangemi Harambee Market in Nairobi City County, Kenya,” Gichuki et al. (2014) found that the collateral requirements have only a moderate influence on the accessibility to credit facilities [6]. This means that access to credit was highly limited due to the implementation of strict collateral requirements like establishing a bank account, having group guarantees or individual guarantors, and having equity capital and assets. The results show that MSMEs failed to secure loans because of the restrictive requirements, one of which is having collateral security.

The collateral requirement is supported by information asymmetry theory because it is about monitoring creditworthiness and consumer behavior toward borrowing funds from financial intermediaries. The theory of information asymmetry assumes that there is incomplete information, which causes information problems, such as moral hazard or adverse selection. Collateral requirements are considered one of the factors because MSMEs are having difficulty borrowing funds from financial institutions due to the requirements needed; thus, this factor is also related to the independent variable of the study, which is access to financing under debt financing, which is a way of borrowing funds from financial institutions.

2.3 Small Business Support Services

Banks often refuse to lend to MSMEs because they are new business owners, raising concerns that their loans won't be repaid. This makes it difficult for MSME entrepreneurs to obtain start-up financing. A study conducted by Osano and Languitone (2016) found that respondents agreed that small business support services could improve access to finance [18]. This finding is in line with observations that the majority of MSMEs have difficulties acquiring finance for their initiatives and that the majority of small businesses are unaware of funding programs (Rambo, 2013) [19].

Most entrepreneurs are not aware that the Philippine government created different programs for MSME owners to support the development and sustainability of businesses in the country. "Pondo sa Pagbabago at Pag-Asenso (P3)" is one of these programs that the government created for small businesses. This program supports small business owners by simplifying and easing the loan application process. In the P3 program, DTI offers low-interest loans of P5,000 to P200,000 to owners of MSMEs in the Philippines. The monthly interest rate is 2.5%. P3 also provides additional financial expertise to business owners for its profit. The program that is being mentioned is only one of the support services that the government created to help MSMEs that find difficulties accessing finance. Small businesses must use Information and Communications Technology (ICT) to increase their competitiveness. Governments from all over the world have created a variety of support services, including policy initiatives and support programs (Charbonneau and Menon, 2013) [3]. Support programs are created to help small enterprises connect to the nation's greater developmental goals, with a primary focus on poverty reduction and the expansion of small businesses.

Small business support services are supported by financial intermediation theory because they are about providing funds to businesses like MSMEs. Financial intermediaries like the government, which provides small business support services, act as a middleman between savers and borrowers to let the money circulate within the economy. Small business support services contribute to financial limitations since one of the issues faced by MSMEs is that their owners are unaware of the government's programs available to aid in the growth and sustainability of their businesses in the country. Small business support services are one of the factors that may make it easier for firms to get capital to maintain their operations; hence, this factor is also related to the independent variable of the study, which is access to financing.

2.4 Structure of the Financial Sector

The banking industry is the core of the financial system in the Philippines; each bank category operates in distinct markets. For instance, thrift banks typically focus on small and medium-sized businesses in metropolitan and provincial business centers that are underserved by UKBs (Khor, Jacildo, and Taceng, 2015) [11]. An exchange of money between lenders, investors, and borrowers is made possible by a financial system. It is crucial to MSMEs' general development and growth since the financial system allows financial institutions to give access to finance to borrowers (Kibona 2021) [8].

Thorsten and Maksimovic (2003), cited by Osano and Languitone (2016), claim that the cost of products and services in the banking system is driven by competition [18]. The degree of competition in the financial sector sets the cost of financial products and impacts the number of small businesses that can access financing. Low competition indicates a weakened banking sector, which will raise the cost of products and services. Since larger/universal banks are less positioned to forge close relationships with small business clients than smaller/regionally-based banks, this has a significant impact on the market for small firm finance. Financial institutions should develop long-term relationships with MSMEs that have the potential to succeed, according to Singh & Wasdani (2016) [23].

In the 2016 study titled "Factors impacting access to credit by SMEs in Mozambique," Osano and Languitone concluded that the regulatory framework should improve the banking system's efficiency and competitiveness while simplifying access to financing [18]. The government has implemented policies and MSME program initiatives to boost productivity and entrepreneurship. The improvement of competition within the financial system, which enables a variety of financial institutions to operate, is one of the policy recommendations made by the International Finance Corporation in 2017 to support a more diverse financial landscape.

The structure of the financial sector is supported by financial intermediation theory as a provider of funds to businesses. Due to intense competition among banks for the best products and actual collusion among them, the structure of the

financial sector is one of the factors that drives financial institutions to compete and give financing to businesses such as MSMEs. As a result, this component is also connected to the debt financing of the study's dependent variable, in which financial institutions issue loans to provide firms access to financing.

2.5 Awareness of Funding Opportunities

As the information focuses on raising MSMEs' awareness of funding opportunities for MSMEs and financial providers, there should be a good flow of information (Falena et al. 2001), as cited by Osano and Languitone (2016) [18]. According to Othieono (2010), they should know who potential suppliers are, the potential risk involved in applying for those funding opportunities like bank financing, financial institutions that can help them, and also the location and their market segments. It is supported by information asymmetry theory. Kibona (2021) states that enhancing information availability, and financial services are an attempt to reduce these expenses, and by thoroughly evaluating the projects prior to loan approval, adverse selection addresses the issue of inadequate information regarding the quality level of MSME projects [8]. Constant monitoring is necessary after the loan is made available to avoid the emergence of moral hazard.

A study on Factors Affecting Credit Access Among Small and Medium Enterprises in Murang'a County by Ndungu (2014) states that to have better access to finance, they should improve their financial awareness and find alternative sources of funding. They should know that information is not timely, quality, accurate, or complete, and that not all MSMEs are aware of funding opportunities available in their area. According to A Review of Access to Finance by Micro, Small, and Medium Enterprises and Digital Financial Services in Selected Asia-Pacific Least Developed Countries by Madan (2020) [12], financial inclusion is needed as MSMEs reportedly perform poorly in terms of profitability, capital sufficiency, and the proportion of non-performing loans. These state-run organizations also have problems with their internal controls, governance procedures, and risk management procedures. And in financial inclusion, regulators should also emphasize spreading knowledge of the funding opportunities available for MSMEs.

2.6 Access to Finance

Access to finance is the capacity of an individual or business to obtain financial products or services from financial institutions. It is essential for the growth and survival of small businesses. According to Deakins (2008), as cited by Osano (2018), under access to finance is equity financing, which is available for new small businesses and provides information on venture capital. The other one is debt financing, which is mostly provided by banks and non-banks. Small businesses go after this type of financing because of a lack of equity financing. Debt financing is also limited for SMEs because of the requirements for the provision of debt.

2.7 Equity Financing

Equity financing is the process by which funds are raised from equity investors to run your business. It will depend on the agreement on what their share will be. Common stocks are given to investors, and that will be their share. Dividends are given periodically, and because it is a long-term security with no maturity date, it is used to pay the investors. According to Kongmanila & Kimbara, 2007, as cited by Njagi, Maina, and Kariuki (2017), it is preferable to offer ownership than to remain in debt when financing your firm. Equity financing is made up of retained profits, savings, contributions from board members, contributions from partners and friends, deferred revenue, and the cash flows of the business [16]. According to Osano and Languitone (2016), small businesses in other countries often lack access to debt financing, and equity financing is one method of gaining access to capital when launching or running a business [18]. The UK's Cruickshank Commission concluded that previous government initiatives to promote the availability of debt financing were misplaced. To adopt and promote policies that support the provision of equity financing to small businesses, the focus of public policy intervention needs to be switched away from debt financing. The national government should therefore promote the creation and expansion of venture capital funds. As cited by Osano and Languitone (2016), the shortage of small business risk capital available to this sector is a result of financial constraints like awareness of funding opportunities and collateral requirements in the provision of equity funding for small businesses [18].

In pecking order theory, it holds that because equity financing sometimes precedes debt financing, private equity operators and venture capitalists altered the pecking order structure. This happens as a result of the need for greater openness and a reduction in information asymmetry among traditional financiers, such as banks and businesses, where the need for funding is only a portion of the overall issue that has to be resolved (Caselli, Negri, 2021) [17].

2.8 Debt Financing

Cooper and Ejarque (2003), as cited by Osano and Languitone (2016), posted the idea that debt financing is a way in which a company can borrow financial products through a loan from the lending institution that is payable in a given time with a fixed interest rate [18]. It is the most common instrument for obtaining funds from a financial institution for

investing in and financing new businesses, including MSMEs. As cited by Osano and Languitone (2016) from the article by Deakins (2008), small businesses chase debt financing, which is commonly provided by banks and other financial institutions, because of a lack of equity financing [18]. However, acquiring debt financing for MSMEs is limited because of the debt requirements. It includes collateral requirements on secured loans for securing bank financing, which can be used when MSMEs are in default of paying their loan commitments. There is a need for a strong relationship between the banks and the borrowers for a transaction to take place.

According to the article entitled "New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments," there are different types of debt financing, such as leasing, asset-based financing, trade credit or vendor financing, and life insurance companies. Leasing is an alternative way to finance equipment purchases. When it comes to asset-based financing, it can be a way for small businesses to use their inventory and accounts receivable as collateral. On the other hand, trade credit is an easily available way to supplement ordinary borrowing. Life insurance companies can be used as a source for low-interest policy loans by using existing policies [26].

Debt financing is a factor in accessing finance as it is a mode of financing for businesses. It relates to financial constraints as they apply to collateral requirements and awareness of funding opportunities. The Pecking Order Theory supports debt financing for the reason that there is a strong discontinuity in financing methods between surplus and deficit enterprises, as well as another at debt capacity.

3. Theoretical Framework

3.1 Information asymmetry theory

Information asymmetry occurs when some but not all parties involved in a transaction have access to relevant information. It also refers to a situation in which one party to a transaction knows more than the other. The amount of information available to financial institutions determines their ability to monitor customer behavior and creditworthiness. According to Yoshino and Hesary (2017), there is an information asymmetry problem between sources of funds and users. It is an important aspect in the field of finance since it is one of the primary sources of financial friction [15].

The idea of information asymmetry argues that information is imperfect, which leads to the dilemmas of adverse selection and moral hazard. Adverse selection is the term used to describe a situation in which the party with less knowledge is misled or even deceived to maximize their gains. This generally occurs before the contract is signed. Information, which the lender cannot discover through the inefficient conduct of borrowers after the loan. Financial institutions are reluctant to contribute their cash because they are afraid of lending to borrowers with bad credit or those who behave inefficiently. This might result in financiers rejecting excellent and qualified projects from small firms or approving poor and disqualified projects. (Du, P., Shu, H., & Xia, Z., 2020) [13].

Providing financial services is an attempt to offset these costs by improving information access. In adverse selection, the problem of incomplete information regarding the quality level of MSME projects is resolved by rigorously screening the projects before loan approval. Once the loan is made available, consistent monitoring is required to prevent the moral hazard from developing (Kibona, 2021) [8].

3.2 Pecking Order Theory

The pecking order theory of corporate capital structure was created by states that are vulnerable to an adverse selection problem when issuing securities. Managers with access to private data are motivated to offer dangerous securities at exorbitant prices. They are aware, however, that issuing such securities will have an adverse impact on the market since sensible investors, who are at a disadvantage in terms of information, will undervalue the prices of any hazardous securities the company issues. As a result, businesses operate according to a pecking order: wherever possible, use internal resources; if necessary, seek external loans; and, as the last option, utilize external equity (Frank et al. 2020) [10].

Some financing patterns in the data are consistent with a pecking order: firms with moderate deficits choose debt issues; firms with very high deficits rely significantly more on equity than debt. Others are not: many equity-issuing firms do not appear to have fully utilized their debt capacity; some with surplus issue equity. According to the theory, there is a strong discontinuity in financing methods between surplus and deficit enterprises, as well as another at debt capacity.

3.3 Financial Inclusion Theory

Financial inclusion theory is a set of theories that provides a system of ideas that explains its objectives, processes, and outcomes (Ozili, 2020). Access to financial resources is a component of financial inclusion, and according to their theorem 3.2, not all people will benefit from financial inclusion since members of the middle class may not think that it is worth it to take a loan to invest in their education given their time preferences (Kling et al., 2022) [9].

According to this theory, mainstream financial services providers have a process to make sure that everyone in a society, like the weaker sections and low-income groups, has access to the financial services and products they need at an affordable price that is fair and transparent. The United Nations (2006) stated that access to credit for all bankable individuals, insurable people and firms, and savings and payment services are being offered by the inclusive financial sector. Everyone who is qualified to use the service should have the option to do so, but inclusive financing does not impose that they do so. In the Philippines, BSP has Financial Inclusion programs and advocacy organizations that aim to expand the services so all people can be reached, like the Credit Surety Fund, Paleng-QR Ph, and Credit Risk Database. BSP also continues to engage with other financial institutions to develop financial inclusion here.

According to the public good theory of financial inclusion, providing formal financial services to the underserved ensures unfettered access to money for the entirety of the population, and is treated as a common good for the good of the entire populace. Financial inclusion programs may be funded at the expense of other crucial public projects, and when financial inclusion is viewed as a public benefit, even if it is supported by public funds, it may not be sustainable over the long term (Ozili, 2020) [14].

3.4 Financial Intermediation Theory

Saunders & Cornett (2011) posted the idea that financial intermediation is a transaction process where the savers provide or put their funds through deposits in financial institutions such as banks, mutual funds, credit unions, and insurance companies that serve as intermediaries and, in return, channel out the funds to the spenders or borrowers [15]. The financial intermediaries act as a middleman between savers and borrowers to let the money circulate within the economy. According to Andries (2009), the theory of financial intermediation is based on the theory of agency and the theory of information asymmetry [1]. The concept of the existence of financial intermediaries is discussed by the presence of the following categories of factors high cost of the transaction, method of regulation, and lack of complete information in a useful time. The financial intermediaries obtain funds from surplus entities or those who have excess funds and lend them to deficit entities or those who are lacking funds. To put it concisely, the engagement of MSMEs in financial institutions in borrowing funds can be compared to the roles played by financial institutions as financial intermediaries. Ratnawati (2020) discussed that the financial intermediation function plays an important role in allocating the resources efficiently in the economy that are mobilized for productive activities [20]. As stated in the article "Financial Intermediation and the Economy, (2022)", the financial intermediary is a medium between the savers and investors and it provides funds to finance others which results in a possibility for the borrowers to have long-term financing agreements.

Scope and Limitations

This research study focused on the awareness of small business owners about accessing their finances, and their capacity to handle financial constraints. The data was gathered through the use of a survey questionnaire for MSMEs in Calapan City, Oriental Mindoro, which have been in business for at least a year. There are about three hundred sixty-three (363) selected respondents.

Statement of the Problem

This study aimed to identify the financial constraints and their impact on access to finance for micro, small, and medium businesses in Calapan City. This seeks to answer the following questions below:

- What are the factors that affect financial constraints on the access to finance of Micro, Small, and Medium Enterprises (MSMEs) in Calapan City, Oriental Mindoro in terms of:
 - collateral requirements;
 - small business support system;
 - structure of the financial sector; and
 - awareness of funding opportunities?
- What is the effect of financial constraints on access to finance?
- Is there a significant relationship between financial constraints and access to finance for MSMEs in Calapan City?
- Hypothesis

H1: There is a significant relationship between financial constraints and access to finance.

4. Material and methods

This study used a quantitative approach since the research questions that were asked resulted in numerical data. The study was descriptive as it aimed to determine the effect of financial constraints on access to finance of micro, small, and medium enterprises (MSMEs) in Calapan City. It further aimed to determine the significant relationship between financial constraints and MSMEs' access to finance in Calapan City. Out of 3,932 MSMEs, three hundred sixty-three (363) of them are chosen as the respondents

363 MSMEs were chosen using simple random sampling. The study also employed Slovin's Formula with a 5% margin of error. Slovin's formula was used to calculate the sample size required to achieve a given confidence interval.

A self-structured questionnaire checklist was submitted to the statistician to verify and validate the questions that will be asked to gather information. The researchers explained clearly the importance of this study to the respondents and the positive outcome of the study to the MSMEs in Calapan City. The researchers have clarified some terms to the respondents so that they can respond to the survey questionnaire with full knowledge of their responsibility as the subject of the study.

5. Results and discussion

This study aimed to find out how the financial constraints affect access to finance of MSMEs; assess the awareness of MSMEs in accessing finances and know their capacity to handle the said financial constraints, and give alternative solutions or shed some light on how the issue of access to finance would be addressed to reduce the number of MSMEs that fail.

Table 1 Correlations of Independent Variable to Dependent Variable

	Indicators	Mean	Standard Deviation	Description
1.	Collateral Requirements	13.71	2.22	Agree
2.	Small Business Support Services	15.37	2.86	Agree
3.	Structure of the Financial Sector	15.75	3.00	Agree
4.	Awareness of Funding Opportunities	17.17	2.56	Agree

Their respective means were 13.71, 15.37, 15.75, and 17.17; this shows that the respondents in this study agreed that there was a significant relationship between financial constraints and access to finance. The standard deviation for collateral requirements is 2.22, 2.86 for small business support services, 3.00 for financial sector structure, and 2.56 for awareness of funding opportunities, which were also characteristics described as agreed by respondents in this study. This signifies that the independent variable's results are consistent with the descriptive statistic's outcomes.

Table 2 Correlations of Dependent Variable to Independent Variable

	Indicators	Mean	Standard Deviation	Description
1.	Equity Financing	17.03	2.59	Agree
2.	Debt Financing	7.97	2.34	Agree

The findings in Table 2 show that equity and debt financing has a similar description, with a mean of 17.03 and 7.97, respectively. The standard deviation for equity financing is 2.59, while the standard deviation for debt financing is 2.34.

Table 3 Correlations of Independent Variables to Equity Financing

	Independent Variable	r	r²	Interpretation
1.	Collateral Requirements	0.43	0.18	Significant
2.	Small Business Support Services	0.52	0.27	Significant
3.	Structure of the Financial Sector	0.51	0.26	Significant
4.	Awareness of Funding Opportunities	0.51	0.26	Significant

The findings, as shown in the table above, support all assumptions since there is a substantial relationship between equity financing and collateral requirements, small business support services, financial sector structure, and awareness of funding opportunities. Small Business Support Services have an r-value of 0.52 and an r² value of 0.27, whereas, Collateral Requirements have an r-value of 0.43 and an r² value of 0.18, according to the data. The Financial Sector

Structure and Awareness of Funding Opportunities have the same final factor, with an r-value of 0.51 and an r²-value of 0.26. The study indicates a positive association between equity financing and collateral requirements, small business support services, the structure of the financial sector, and awareness of funding opportunities. Table 4 Summary Table of r and r² - DV: Debt Financing

Table 4 Correlations of Independent Variables to Debt Financing

	Independent Variable	r	r²	Interpretation
1.	Collateral Requirements	0.42	0.18	Significant
2.	Small Business Support Services	0.53	0.28	Significant
3.	Structure of the Financial Sector	0.58	0.34	Significant
4.	Awareness of Funding Opportunities	0.65	0.43	Significant

According to the study, there is a favorable correlation between equity financing and collateral requirements, small company support services, financial sector structure, and funding opportunities awareness. Debt finance collateral requirements, small business support services, financial sector structure, and funding opportunities have substantial relationships. According to the statistics, the Structure of the Financial Sector has an R-value of 0.58 and an r² value of 0.34 while Awareness of Funding Opportunities has an R-value of 0.65 and an r² value of 0.43. The Collateral Requirements with an R-value of 0.42 and an r² value of 0.18 and the Small Business Support Services have an R-value of 0.53 and an r² value of 0.28. According to the study, there is a positive correlation between debt financing and collateral requirements, small business support services, the financial sector's structure, and awareness of funding opportunities.

6. Conclusion

The findings show that the most important idea is that collateral requirements, small business support services, financial sector structure, and awareness of funding opportunities are critical for facilitating access to finance for small businesses in Calapan City.

Improved small business support services, raising awareness of funding opportunities, and establishing a favorable financial sector structure can help reduce financial constraints faced by MSMEs in Calapan City, improving access to financing.

In accordance with the findings and conclusions of the study, the researchers recommend that the local government and financial institutions work together to provide loan protection for small business owners (MSMEs) regarding the collateral requirements needed to avail of loans. The study also recommended that MSMEs should look for a financial institution that offers loan products and services that are aligned with their needs for funding. The local government unit should also raise awareness on how and where CSMEs may be able to access finance through training and seminars

and to enhance their financial management skills. Further studies are recommended to discover other factors affecting MSMEs' financing access and to carry out a similar study from other nearby towns.

Compliance with ethical standards

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Disclosure of conflict of interest

The authors declare that they have no conflicts of interest in the research conducted.

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