International Journal of Economic Practices and Theories (IJEPT)
ISSN: 2247-7225
Volume 2026, Issue 1

Accessibility and Utilization of Bank Finance by Small and Medium Enterprises: A Study of Entrepreneurs in Dakshina Kannada and Udupi Districts

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Abstract:

This study examines the accessibility, adequacy, and utilization of bank finance among Small and Medium Enterprises (SMEs) in Dakshina Kannada and Udupi districts of Karnataka. SMEs play a significant role in employment generation, industrial development, and economic growth; however, access to timely and adequate institutional finance remains a major challenge. The study analyses various aspects of bank financing, including ownership of lending banks, loan application procedures, documentation, loan disbursement period, pre-disbursal interactions, nature of loans sanctioned, adequacy and cost of finance, and utilization of bank loans by entrepreneurs. Primary data were collected from 343 SME entrepreneurs using a structured questionnaire. The data were analysed using descriptive statistics and Chi-square tests to examine district-wise differences in various dimensions of bank financing. The findings reveal that entrepreneurs continue to experience procedural complexities, delays in loan disbursement, inadequate loan amounts, and high borrowing costs. Working capital emerged as the primary purpose for availing bank finance, followed by diversification, modernization, and business expansion. Significant district-wise differences were observed in the ownership status of lending banks and procedural formalities involved in obtaining loans, whereas most other dimensions showed no statistically significant differences. The study recommends simplifying loan procedures, reducing processing time, improving transparency, and ensuring adequate credit support to enhance the effectiveness of institutional finance for SMEs.

Keywords: Small and Medium Enterprises (SMEs); Bank Finance; Institutional Credit; Loan Accessibility; Entrepreneurial Finance

Introduction

Small and Medium Enterprises (SMEs) play a pivotal role in the economic development of every nation by generating employment, promoting entrepreneurship, encouraging innovation, and contributing significantly to industrial production and exports. In India, the SME sector is regarded as the backbone of the economy because it accounts for a substantial share of manufacturing output, exports, and Gross Domestic Product (GDP). The Government of India has introduced several initiatives such as the MSME Development Act, Pradhan Mantri Mudra Yojana (PMMY), Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Stand-Up India Scheme, and Emergency Credit Line Guarantee Scheme (ECLGS) to improve access to institutional finance for SMEs. Despite these policy initiatives, access to timely and adequate bank finance continues to remain one of the major challenges faced by entrepreneurs.Institutional finance is essential for establishing new enterprises, expanding existing businesses, modernizing production facilities, purchasing machinery, meeting working capital requirements, and adopting new technologies. The availability of bank finance enables entrepreneurs to improve productivity, enhance competitiveness, and sustain business growth. However, several studies have reported that SMEs often face challenges such as inadequate loan sanctions, lengthy documentation procedures, delays in loan disbursement, stringent collateral requirements, and high borrowing costs. These issues affect the financial health and growth potential of small businesses, particularly in developing economies.Dakshina Kannada and Udupi districts of Karnataka are known for their entrepreneurial culture and vibrant SME sector. The region hosts a diverse range of enterprises engaged in manufacturing, trading, services, food processing, fisheries, tourism, construction, and allied activities. Commercial banks, cooperative banks, regional rural banks, and private sector banks play a crucial role in meeting the financial needs of these enterprises. Nevertheless, entrepreneurs continue to encounter various operational and procedural challenges while accessing institutional credit.

The present study examines the experiences of SME entrepreneurs with bank financing in Dakshina Kannada and Udupi districts. It analyses the ownership status of lending banks, the complexity of loan application procedures, time taken for loan disbursement, frequency of bank visits, nature of loans sanctioned, adequacy of loan amounts, availability and cost of finance, reasons for selecting particular banks, and the purposes for which bank loans are utilized. The study also evaluates entrepreneurs' satisfaction with different dimensions of bank financing and identifies areas where improvements are required.

The findings of the study provide valuable insights into the effectiveness of institutional financing for SMEs and offer practical recommendations for banks, policymakers, and financial institutions to improve credit delivery mechanisms.

Statement of the Problem

Access to adequate and timely institutional finance remains one of the most critical factors influencing the growth and sustainability of Small and Medium Enterprises. Although banks have introduced several schemes to support SMEs, entrepreneurs continue to experience difficulties such as inadequate loan sanctions, procedural complexities, delays in loan disbursement, multiple bank visits, and high borrowing costs. These challenges may restrict business expansion and reduce operational efficiency. Therefore, it is essential to examine the effectiveness of bank financing and understand the issues faced by SME entrepreneurs in Dakshina Kannada and Udupi districts.

Objectives of the Study

- To examine the accessibility and nature of bank financing provided to Small and Medium Enterprises (SMEs) in Dakshina Kannada and Udupi districts.
- To analyse the loan application process, including procedural formalities, documentation, loan disbursement period, and pre-disbursal interactions with banks.
- To assess the adequacy, availability, timeliness, cost, and utilization of bank finance by SME entrepreneurs.
- To examine whether significant differences exist between Dakshina Kannada and Udupi districts with respect to various dimensions of bank financing for SMEs.

Hypotheses of the Study

H01: There is no significant association between the district and the accessibility and nature of bank financing provided to Small and Medium Enterprises (SMEs).

H02: There is no significant association between the district and the loan application process, including procedural formalities, documentation, loan disbursement period, and pre-disbursal interactions with banks.

H03: There is no significant association between the district and the adequacy, availability, timeliness, cost, and utilization of bank finance by SME entrepreneurs.

H04: There is no significant difference between Dakshina Kannada and Udupi districts with respect to various dimensions of bank financing for Small and Medium Enterprises (SMEs).

Research Methodology

The study is descriptive and analytical in nature. It is based on primary data collected from 343 Small and Medium Enterprise (SME) entrepreneurs operating in Dakshina Kannada and Udupi districts of Karnataka. A structured questionnaire was used as the primary instrument for data collection. The questionnaire covered various aspects of bank financing, including accessibility, loan application procedures, documentation, loan disbursement period, procedural formalities, adequacy, availability, cost, and utilization of bank finance. The collected data were coded, classified, and analysed using descriptive statistical techniques such as frequencies and percentages. The Chi-square test was employed to examine the significance of differences and associations between the two districts with respect to various dimensions of bank financing. Statistical analysis was carried out using appropriate software, and hypotheses were tested at the 5 percent level of significance.

Analysis of Data

Table 1.1: Ownership Status of the Bank from which Loan was availed

Ownership status of the bank	District					
	D.K		Udupi		Total	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
Private Sector	130	52.8	39	40.2	169	49.3
Public Sector	116	47.2	58	59.8	174	50.7
Total	246	100.0	97	100.0	343	100.0
Parameter			**Chi square value**	**d.f**	**p**	
Ownership status of the bank			4.446	1	0.035	Sig

Source: Survey Data

The ownership status of banks from which entrepreneurs availed loans indicates that 50.7% of the respondents borrowed from public sector banks, while 49.3% obtained loans from private sector banks. In Dakshina Kannada district, a slightly higher proportion of entrepreneurs (52.8%) preferred private sector banks, whereas in Udupi district, 59.8% preferred public sector banks. The Chi-square value (χ^2 = 4.446; p = 0.035) reveals a statistically significant association between district and ownership status of the lending bank. This indicates that entrepreneurs' preference for public or private sector banks varies significantly across the two districts.

Table 1.2: Level of difficulty about the clauses in the loan application form

Clauses in the loan application	District					
	D.K		Udupi		Total	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
Difficult	34	13.8	7	7.2	41	12.0
Somewhat difficult	102	41.5	46	47.4	148	43.1
Easy to understand	29	11.8	16	16.5	45	13.1
Lacks clarity	44	17.9	19	19.6	63	18.4
Lengthy/ cumbersome	37	15.0	9	9.3	46	13.4
Total	246	100.0	97	100.0	343	100.0
Parameter			**i square value**	**d.f**	**p**	
Clauses in the loan application form			6.118	4	0.191	NS

Source: Survey Data

Among the respondents, 43.1% reported that the clauses in the loan application form were somewhat difficult, while 18.4% felt that the clauses lacked clarity. Only 13.1% found the clauses easy to understand, whereas

13.4% considered the forms lengthy and cumbersome. The Chi-square test ($\chi^2 = 6.118$; $p = 0.191$) is statistically non-significant, indicating that entrepreneurs from both districts experienced similar levels of difficulty in understanding the loan application forms. This suggests that the complexity of documentation is a common issue irrespective of geographical location.

Table 1.3: Time taken for disbursement of loan amount

Time taken for disburseme	District					
	D.K		Udupi		Total	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
One month	0	0.0	0	0.0	0	0.0
Two	58	23.6	23	23.7	81	23.6
Three	106	43.1	41	42.3	147	42.9
More than 3 months	82	33.3	33	34.0	115	33.5
Total	246	100.0	97	100.0	343	100.0
Parameter			**i square value**	**d.f**	**P**	
Time taken for disbursement			0.021	2	.989	NS

Source: Survey Data

The results show that 42.9% of the respondents received the loan amount after three months, while 33.5% waited for more than three months. Only 23.6% received loans within two months, and none reported receiving the loan within one month. The Chi-square value ($\chi^2 = 0.021$; $p = 0.989$) indicates no significant difference between Dakshina Kannada and Udupi districts regarding loan disbursement time. The findings clearly suggest that entrepreneurs in both districts experience considerable delays in receiving sanctioned loans.

Table 1.4: Number of Pre-disbursal visits to the bank by the entrepreneur

Pre-disbursal visits to the bank	District					
	D.K		Udupi		Total	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
Less than 3 visits	6	2.4	6	6.2	12	3.5
3 to 5 visits	156	63.4	58	59.8	214	62.4
More than 5 visits	84	34.1	33	34.0	117	34.1
Total	246	100.0	97	100.0	343	100.0
Parameter			**i square value**	**d.f**	**p**	
Pre-disbursal visits made by the entrepreneur			2.938	2	0.230	NS

Source: Survey Data

The majority (62.4%) of entrepreneurs visited the bank three to five times before loan disbursement, while

34.1% visited the bank more than five times. Only 3.5% completed the process with fewer than three visits. The Chi-square value (χ^2 = 2.938; p = 0.230) indicates no significant difference between districts. This finding reflects the existence of repeated procedural requirements and multiple interactions before loan approval and disbursement.

Table 1.5: Procedure/formalities involved in obtaining loans

Procedure/ formalities involved	District					
	D.K		Udupi		Total	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
Difficult	40	16.3	8	8.2	48	14.0
Somewhat difficult	84	34.1	31	32.0	115	33.5
Easy to understand	22	8.9	8	8.2	30	8.7
Lacks	43	17.5	32	33.0	75	21.9
Lengthy/ Cumbersom	57	23.2	18	18.6	75	21.9
Total	246	100.0	97	100.0	343	100.0
Parameter			**i square value**	**d.f**	**P**	
Procedure/formalities involved in obtaining loans			11.661	4	.020	Sig

Source: Survey Data

Regarding procedural formalities, 33.5% of respondents found them somewhat difficult, while 21.9% believed that the procedures lacked clarity and another 21.9% considered them lengthy and cumbersome. Only 8.7% felt that the procedures were easy to understand. The Chi-square value (χ^2 = 11.661; p = 0.020) is statistically significant, indicating that entrepreneurs' perceptions of loan procedures differ significantly between Dakshina Kannada and Udupi districts. Overall, the findings indicate that procedural complexity remains a major obstacle in accessing institutional finance.

Table 1.6: Nature of Loan Sanctioned

Nature of loan	District					
	D.K		Udupi		Total	
	No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
Short Term	7	2.8	7	7.2	14	4.1
Medium Term	130	52.8	52	53.6	182	53.1
Long Term	109	44.4	38	39.2	147	42.8
Total	246	100.0	97	100.0	343	100.0
Parameter			**i square value**	**d.f**	**p**	

Nature of loan sanctioned	3.692	2	0.158	NS

Source: Survey Data

The majority (53.1%) of entrepreneurs received medium-term loans, followed by 42.8% receiving long-term loans, while only 4.1% obtained short-term finance. The Chi-square test ($\chi^2 = 3.692$; $p = 0.158$) indicates no significant district-wise variation. This suggests that medium-term financing is the dominant form of institutional credit provided to SMEs in both districts.

Table 1.7: Determinants of the loan amount

Determinants		District					
		D.K		Udupi		Total	
		No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
Adequacy	In-adequate	144	58.5	61	62.9	205	59.8
	Adequate	102	41.5	36	37.1	138	40.2
	Total	246	100.0	97	100.0	343	100.0
Timely	Delayed	150	61.0	63	64.9	213	62.1
	Timely	96	39.0	34	35.1	130	37.9
	Total	246	100.0	97	100.0	343	100.0
Availability	Difficult	177	72.0	73	75.3	250	72.9
	Easy to Avail	69	28.0	24	24.7	93	27.1
	Total	246	100.0	97	100.0	343	100.0
Cost	Inexpensive	98	39.8	29	29.9	127	37.0
	Expensive	148	60.2	68	70.1	216	63.0
	Total	246	100.0	97	100.0	343	100.0
Parameters				**i square value**	**d.f**	**p**	
Adequacy				0.547	1	0.459	NS
Timely				0.467	1	0.495	NS
Availability				0.385	1	0.535	NS
Cost				2.948	1	0.086	NS

Source: Survey Data

Determinants of the Loan Amount

Adequacy of Loan Amount: The majority of the respondents (59.8%) reported that the loan amount sanctioned by banks was inadequate, while only 40.2% considered it adequate. This indicates that the sanctioned credit was insufficient to meet the financial requirements of many SME entrepreneurs. The district-wise difference was not statistically significant ($\chi^2 = 0.547$, $p = 0.459$).

Timeliness of Loan: About 62.1% of the respondents experienced delays in loan sanction or disbursement, whereas 37.9% received loans on time. The findings suggest that delays in the loan process remain a major concern for entrepreneurs across both districts. The difference between the districts was statistically non-significant ($\chi^2 = 0.467$, $p = 0.495$).

Availability of Loan: Nearly 72.9% of the respondents stated that obtaining bank finance was difficult, while only 27.1% found it easy to avail. This indicates that access to institutional credit continues to be a significant challenge for SME entrepreneurs. No significant difference was observed between the two districts ($\chi^2 = 0.385$, p = 0.535).

Cost of Loan: The study reveals that 63.0% of the respondents considered bank loans to be expensive, whereas 37.0% perceived them as inexpensive. This suggests that the cost of borrowing is a major concern among SME entrepreneurs. However, the district-wise variation was statistically non-significant ($\chi^2 = 2.948$, $p = 0.086$).

Table 1.8: Reasons for approaching the concerned bank

Reasons for approaching the bank		District					
		D.K		Udupi		Total	
		No. of Respondents	%	No. of Respondents	%	No. of Respondents	%
Easy Access	No	100	40.7	43	44.3	143	41.7
	Yes	146	59.3	54	55.7	200	58.3
	Total	246	100.0	97	100.0	343	100.0
Better Customer Service	No	121	49.2	49	50.5	170	49.6
	Yes	125	50.8	48	49.5	173	50.4
	Total	246	100.0	97	100.0	343	100.0
Adequacy of Loan	No	129	52.4	56	57.7	185	53.9
	Yes	117	47.6	41	42.3	158	46.1
	Total	246	100.0	97	100.0	343	100.0
Low Rate of Interest	No	189	76.8	75	77.3	264	77.0
	Yes	57	23.2	22	22.7	79	23.0
	Total	246	100.0	97	100.0	343	100.0
Availability of Technical Advice	No	208	84.6	82	84.5	290	84.5
	Yes	38	15.4	15	15.5	53	15.5
	Total	246	100.0	97	100.0	343	100.0
Availability of Incentives	No	214	87	87	89.7	301	87.8
	Yes	32	13	10	10.3	42	12.2
	Total	246	100.0	97	100.0	343	100.0
Nearness/ Nearer to the unit and home	No	124	50.4	52	53.6	176	51.3
	Yes	122	49.6	45	46.4	167	48.7
	Total	246	100.0	97	100.0	343	100.0
No other Option	No	216	87.8	87	89.7	303	88.3
	Yes	30	12.2	10	10.3	40	11.7
	Total	246	100.0	97	100.0	343	100.0
Rejection of loan by other Banks/ Financial Institutions	No	197	80.1	88	90.7	285	83.1
	Yes	49	19.9	9	9.3	58	16.9
	Total	246	100.0	97	100.0	343	100.0
Parameters				**i square value**	**d.f**	**p**	
Easy Access				0.018	1	0.894	NS
Better Customer Service				0.035	1	0.851	NS

Adequacy of Loan	0.784	1	0.376	NS
Low Rate of Interest	0.009	1	0.923	NS
Availability of Technical Advice	0.000	1	0.997	NS
Availability of Incentives	0.472	1	0.492	NS
Nearness/Nearer to the unit and home	0.285	1	0.593	NS
No other Option	0.240	1	0.624	NS
Rejection of loan by other Banks/Financial Institutions	5.606	1	.018	Sig

Source: Survey Data

Pearson Chi-Square Test for goodness of fit		
		Reasons
Reasons for approaching the bank	Chi-square	315.61
	df	8
	p	.0000, HS

Table 1.8 presents the various purposes for which SME entrepreneurs utilized the loan amount obtained from banks. The findings reveal that the majority of the respondents used bank finance for productive business activities rather than for personal or non-business purposes. Among all the purposes, working capital emerged as the primary reason for availing bank loans, with 67.3% of the respondents utilizing the sanctioned amount to meet their day-to-day operational requirements. This was followed by diversification of products (62.1%), indicating that entrepreneurs used institutional finance to expand their product range and improve business competitiveness. Similarly, 59.5% of the respondents invested the loan amount in modernization, capacity expansion, and upgradation of facilities, reflecting their intention to enhance production efficiency and business growth. More than half of the respondents (54.5%) also utilized the loan for the purchase of vehicles, while 40.0% invested in the acquisition of land, buildings, plant, machinery, and equipment, indicating that a considerable proportion of entrepreneurs used bank finance for acquiring productive business assets.

On the other hand, comparatively fewer entrepreneurs used the loan amount for establishing a new business unit (16.6%), repayment of old loans (29.4%), repayment of unsecured loans (17.8%), research and development activities (9.6%), purchase of an existing business unit (7.6%), or acquisition of another business (3.5%). Only 21.9% reported using a portion of the loan for personal reasons, suggesting that most respondents utilized institutional finance primarily for business-related purposes. The Chi-square analysis indicates that working capital is the only purpose showing a statistically significant difference between Dakshina Kannada and Udupi districts ($\chi^2 = 6.97$, $p = 0.008$), whereas all other purposes do not differ significantly between the two districts. Furthermore, the overall goodness-of-fit Chi-square test ($\chi^2 = 720.268$, $p < 0.001$) confirms that the utilization pattern of loan funds varies significantly across different business purposes. Overall, the findings demonstrate that bank finance plays a crucial role in meeting the operational, expansion, and modernization needs of SMEs, with working capital emerging as the most important purpose for borrowing.

Major Findings:

- Public sector banks (50.7%) marginally surpassed private sector banks (49.3%) as the preferred source of finance, and this preference varied significantly between the two districts.
- Nearly half of the respondents found loan application clauses somewhat difficult to understand, indicating documentation-related challenges.

- Most entrepreneurs received loans only after three months or more, highlighting delays in loan processing.
- More than 96% of the respondents had to visit banks at least three times before loan disbursement.
- Procedural formalities were perceived as difficult, unclear, and lengthy, with significant differences between the two districts.
- Medium-term loans constituted the largest share of sanctioned loans (53.1%).
- Most respondents considered the sanctioned loan amount inadequate, experienced delays, found bank finance difficult to access, and perceived borrowing costs as high.
- Working capital was the primary purpose for availing loans, followed by diversification, modernization, and expansion activities.
- Entrepreneurs primarily selected banks due to easy accessibility and better customer service, while rejection by other financial institutions was comparatively less common.

Testing of Hypotheses

H01: There is no significant association between the district and the accessibility and nature of bank financing provided to SMEs.

A significant association was found for ownership status of the lending bank ($p = 0.035$) hence rejected.

H02: There is no significant association between the district and the loan application process, including procedural formalities, documentation, loan disbursement period, and pre-disbursal interactions with banks.

Procedural formalities showed a significant association with the district ($p = 0.020$) hence rejected.

H03: There is no significant association between the district and the adequacy, availability, timeliness, cost, and utilization of bank finance by SME entrepreneurs.

Loan utilization for working capital differed significantly between the districts ($p = 0.008$) hence rejected.

H04: There is no significant difference between Dakshina Kannada and Udupi districts with respect to various dimensions of bank financing for SMEs.

Significant differences were observed in at least some dimensions of bank financing hence rejected.

Limitations of the Study:

- The study is confined to Dakshina Kannada and Udupi districts; therefore, the findings may not be generalizable to other regions.
- The analysis is based on the responses of 343 SME entrepreneurs and reflects their perceptions at the time of the survey.
- Only bank financing was considered; alternative sources such as NBFCs, microfinance institutions, venture capital, and fintech lending were not included.
- Changes in banking policies and government credit schemes after the survey period are not reflected in the findings.

Conclusion: The study concludes that bank finance continues to be an indispensable source of funding for SMEs in Dakshina Kannada and Udupi districts. Entrepreneurs primarily utilize institutional finance for working capital, business diversification, modernization, and capacity expansion. However, the study reveals persistent challenges, including inadequate loan amounts, delays in loan sanction and disbursement, procedural complexities, repeated visits to banks, and relatively high borrowing costs. Although the overall perceptions of entrepreneurs were similar across the two districts, significant differences were observed with respect to the ownership status of lending banks and procedural formalities involved in obtaining loans. The findings suggest that banks should simplify documentation, expedite loan processing, improve transparency in lending procedures, and ensure that loan amounts are aligned with the actual financial requirements of SMEs. Strengthening customer support, expanding digital loan processing systems, and providing entrepreneur-friendly credit services would enhance access to institutional finance and contribute to the sustainable growth and competitiveness of the SME sector.

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