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WORKING PAPER

FINANCIAL ACCESSIBILITY AND FIRM PERFORMANCE: Do Domestic MSMEs Deserve Greater Attention than Foreign-Owned MSMEs?

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FINANCIAL ACCESSIBILITY AND FIRM PERFORMANCE: Do Domestic MSMEs Deserve Greater Attention than Foreign-Owned MSMEs?

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Abstract: *Limited accessibility to formal financing sources inhibits Micro, Small and Medium Enterprises (MSMEs) from investing in their operations, technology upgradation, and expansion of their market presence. Further increasing competitiveness due to globalisation and the 4th industrial revolution fuels the problem, making it difficult for MSMEs to survive. Unlike foreign-owned firms, financial accessibility is crucial for the sustained growth of capital-starved domestic firms. Given the lack of evidence, the study attempts to examine the impact of access to finance on the performance of MSMEs, particularly between domestic and foreign-owned firms. Using the World Bank Enterprise Survey (WBES) database and addressing the endogeneity issues, the study finds that access to finance significantly increases MSMEs' performance, particularly for domestic-owned firms, compared to foreign-owned firms. The study reiterates that developing countries must prioritise credit policy to improve domestic firms' competitiveness while addressing the financial constraints of MSMEs.*

Keywords: *Access to Finance, MSMEs, Firm Performance, Developing Countries*

JEL Classifications: *E51, L2*

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For the complete working paper, please contact the author(s) at akhilesh@isid.org.in; prakash.archa@gmail.com; & doorairaj@gmail.com

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