

Challenges in Access to Finance for Small and Medium Enterprises in the Maldives

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ABSTRACT

Small and Medium Enterprises (SMEs) play an integral part in the employment and Gross Domestic Product (GDP) of any economy. The development of SMEs is severely constrained by several factors from which lack of access to finance is the prevailing challenge. The purpose of the study is to identify and discuss the importance of access to finance for SME development in the Maldives, identify and examine the available financing options, identification of key challenges to access to finance and provide recommendations to overcome the barriers to access to finance for SMEs in the Maldives. A qualitative study was conducted using an exploratory approach with inductive reasoning providing in-depth insight into the area by conducting semi-structured interviews with 17 participants with no preconceived notions. The study revealed significant gaps persist between SMEs and lending institutions resulting in the hesitance of SMEs to approach formal credit despite the availability of several debt financing options. The findings indicate that significant improvement of financial literacy and information asymmetry is vital for the lending institutions to ascertain the creditworthiness and repayment capacity of the SMEs. The study further reveals the significant strengthening role of the government in the reformation of several legal and regulatory aspects to eradicate the existing challenges and the establishment of Government Business Support Systems (GBSS) to bridge the existing financing gap for SMEs in the Maldives. However, the current government-led initiatives lack confidence due to the perceived amount of political influence in the system. More transparent reform strategies will contribute to the sustainable development of SMEs eradicating the prevalent challenges to access to finance.

Key Words: Challenges, Finance, SMEs, Maldives, Sustainable-development