

Financing for the Strengthening of SMEs, a Study in Guasave, Sinaloa, Mexico.

Atondo-Osuna Jesus Francisco, Faculty of Economic and Administrative Sciences, Autonomous University of Sinaloa, Juan de Dios Batiz Boulevard, San Joachin, Guasave, Sinaloa, Mexico, CP. 81101.

Corresponding author: jesus.atondo@uas.edu.mx

Cabrera-Montoya Santa Xiomara, Faculty of Economic and Administrative Sciences, Autonomous University of Sinaloa, Juan de Dios Batiz Boulevard, San Joachin, Guasave, Sinaloa, Mexico, CP. 81101

Castro-Leon Ruben Abel, Faculty of Economic and Administrative Sciences, Autonomous University of Sinaloa, Juan de Dios Batiz Boulevard, San Joachin, Guasave, Sinaloa, Mexico, CP. 81101

Abstract The access to financing for SMEs is limited, posing a barrier to their growth and development. The lack of financial resources hinders their competitiveness in a globalized scenario. Therefore, the objective of this research is to describe the financial environment of micro, small, and medium-sized enterprises (MSMEs) in the municipality of Guasave, Sinaloa, Mexico. The methodology involves a literature review and is contextualized based on the business environment of the region. The results reveal a lack of information and training for MSMEs to access financing. Additionally, credit institutions perceive risks in granting loans to companies with low production levels. Faced with this scenario of limited financial alternatives, the vulnerability of this productive sector in an increasingly globalized and demanding world is evident. Consequently, there is a need to reconsider financial policies, making access to various forms of leverage an achievable alternative for this universe of companies.

Keywords. financing, SMEs, loans, productive, leverage.

1. Introduction

Financing is a key factor for the development and growth of small businesses in any economy [1]. In Mexico, small and medium-sized enterprises (SMEs) represent 99.8% of the total and generate 52% of formal employment [2]. Despite their significance, these businesses face significant challenges in accessing financing, limiting their ability to grow and contribute to local economic development.

In the specific case of Guasave, Sinaloa, the leverage of small businesses is even more limited. According to a study by the Ministry of Economy, only 7% have access to bank credit, representing a significant barrier to their growth and development [3].

The lack of access to financing also limits the capacity of small businesses to generate employment and contribute to local economic development. It is important to note that they are a significant source of innovation and creativity in the local economy, making their growth and development crucial for the overall development of the region [4;5].

According to the book 'Financing Small Business: Start-up, Operation, and Expansion' by Hatten and Ruhland, access to financing is essential for small businesses at all stages of their life cycle, from creation to expansion and maturity. However, these businesses often struggle to obtain loans from traditional banks due to their lack of credit history and assets, making access to credit even more crucial for their survival and growth [6].

Furthermore, Longenecker et al emphasize the importance of small businesses for the local and global economy. They point out that small businesses are responsible for the majority of new jobs and are a significant source of innovation, which, in turn, fosters economic growth. However, the lack of access to financing remains a hurdle for their growth and sustainability [7].

Despite the importance of access to financing for small businesses, there are various barriers hindering such access. Lack of information and training on credit requirements, the perception of risk by financial institutions, and challenges present in rural areas are among the primary barriers preventing access to financing [8;9].

The objective of this research is to describe the financing options and how they also limit the capacity of MSMEs to generate employment and contribute to local economic development [10].

2. Theoretical and Contextual Justification

According to INEGI data in 2020 [8], the municipality of Guasave has a population of 289,370 inhabitants, with 49.4% being male and 50.6% female. In comparison to 2010, the population in Guasave grew by 1.21%. In terms of size, Guasave ranks eighth among the municipalities of the state of Sinaloa, covering an area of 3,464.41 square kilometers, representing 5.9% of the state's total area. It comprises more than 442 localities, with the most important ones being the Municipal Headquarters Guasave, Juan José Ríos, Benito Juárez, El Burrión, Nío, Estación Bamoá, León Fonseca, Adolfo Ruiz Cortínez, La Trinidad, Tamazula, and La Brecha. Of this area, more than 50% is utilized for agricultural activities.

According to INEGI, in the municipality of Guasave, there are 11,772 companies [8], which are classified as follows (see Table 1).

Table 1. Classification of MSMEs in Guasave.

Size	Number of Companies
Micro	10,996
Small	680
Medium	96

Source: Own elaboration with data obtained from INEGI [8].

While it is true that the definition of micro, small, and medium-sized enterprises has not been standardized internationally, there can be discrepancies even among government agencies within the same country, as noted by Ueki, Tsuji, and Carcamo [11]. The classification is based on the number of employees and sales volume, which varies according to the reality and relative size of each country, resulting in diverse groupings of micro, small, and medium-sized enterprises [12]. In its broadest conception, MSMEs are considered as an economic unit producing goods and services, often directed by their owner in a personalized and autonomous manner, with small dimensions in terms of the number of workers and market coverage.

Since June 2009, the Official Gazette of the Federation in Mexico published the agreement establishing the stratification of micro, small, and medium-sized enterprises, which includes the classification of these enterprises. This agreement considers these businesses as a fundamental element for the economic development of the countries, both for their contribution to employment and their contribution to the Gross Domestic Product (GDP). In the case of Mexico, they constitute more than 99% of the total economic units in the country, representing around 52% of the Gross Domestic Product and contributing to generating more than 70% of formal employment [13].

There are different criteria for recognizing MSMEs; however, the official criterion in Mexico is based on sales, the number of employees, and the economic sector to which the company is linked (see Table 2). Nevertheless, credit institutions often use the loan amount granted as a criterion for identifying the size dimension of the company, stemming from limitations in the availability and quality of information [14].

Within MSMEs, one can find the widest range of productive, commercial, and service-oriented activities. These businesses also tend to engage in activities independently, often related to larger enterprises. In doing so, they may be influenced by these larger entities, which can either subjugate them, minimizing their development possibilities, or establish a form of interdependence.

Table 2. Stratification of SMEs in Mexico.

Size	Sector	Number of Employees	Annual Sales Amount (in million pesos)
Micro	All	Up to 10	Up to \$4
Small	Commerce	From 11 up to 30	From \$4.01 up to \$100
	Industry and Services	From 11 up to 50	From \$4.01 up to \$100
Medium	Commerce	From 31 up to 100	From \$100.01 up to \$250
	Services	From 51 up to 100	
	Industry	From 51 up to 250	From \$100.01 up to \$250

Source: Own elaboration with data obtained from the Official Gazette of the Federation (2009).

MSMEs are crucial for national economies due to their contributions to the production and distribution of goods and services. They are also valued for their flexibility in adapting to technological changes and their significant potential to generate employment. Furthermore, they serve as an excellent means to drive economic development and promote a more equitable distribution of wealth [15]. In Mexico, the National Survey on Productivity and Competitiveness of Micro, Small, and Medium-sized Enterprises reveals that there are 4,169,677 such enterprises, of which 111,958 are SMEs, and 4,057,719 are microenterprises [16].

In the case of MSMEs, the economic environment in Mexico is independent of the existence of poor management, which represents one of the causes for the short lifespan of this universe of companies, according to the National Commission for the Protection and Defense of Financial Services Users (CONDUSEF). In a study published on their behavior, 43% of businesses fail due to errors, and only two out of ten entrepreneurs are qualified to manage their own business. The study emphasizes the role of owners who perform a significant portion of the activities. According to data from CONDUSEF and the Ministry of Economy, 65% of new MSMEs created in a year disappear before reaching two years of existence due to poor management [17].

The importance of these businesses for the economic development of Mexico is undeniable, as they represent a significant portion of the productive sector and employment in the country [2]. Despite this, they face numerous challenges in their growth and development, with access to financing being one of the main obstacles [18].

The lack of access to financing can have a negative impact on the ability to innovate, expand, and generate employment [19]. Moreover, it can be particularly problematic in rural areas like Guasave, where access to financial resources may be limited [20].

At a theoretical level, various explanations have been proposed to understand the lack of access to financing for MSMEs. According to agency theory, the lack of access to financing may be due to information asymmetry between lenders and borrowers [21]. On the other hand, the resource dependency theory suggests that SMEs may face difficulties in accessing financing due to their dependence on external resources [22].

Agency theory is relevant for understanding the financing challenges that small businesses face [23] as it pertains to the financing of small businesses insofar as these businesses also encounter agency problems in their relationships with lenders and investors [24]. They often experience information asymmetry in their financing relationships, which can lead to risks of adverse selection and moral hazard.

For example, when a small business applies for a bank loan, the bank encounters a problem of adverse selection as it does not have complete information about the company's ability to repay the loan [25]. The company might have financial difficulties that the bank is unaware of, and consequently, the company may not be able to repay the loan.

To mitigate the risk of adverse selection, banks may require small businesses to provide guarantees or collateral to ensure that the loan will be repaid [5]. However, this requirement can lead to a moral hazard problem, as the company might make riskier investment decisions to

maximize profits instead of focusing on repaying the loan.

Additionally, small businesses also encounter agency problems in their relationships with investors [26]. Investors may demand ownership stake in the company or involvement in strategic decisions, leading to a conflict of interest with the owners of the company. For example, if an investor demands ownership stake in the company, they might have incentives to maximize short-term profits rather than focusing on the long-term success of the company.

The resource dependency theory argues that companies, regardless of their size, depend on certain resources for their survival and growth. The acquisition and control of these resources can significantly impact a company's financial performance [27]. In the case of small businesses, resource dependency is particularly critical due to their limited capacity to acquire and control the necessary resources [28].

In this regard, the dependence on financial resources has become a common issue for small businesses, especially in developing countries like Brazil and Iran [28;29;30]. They found that financial development can reduce the dependence on financial resources and alleviate financing constraints for small and medium-sized enterprises in China.

Institutional ownership can also impact the financing of small businesses by reducing their dependence on external financial resources. Hossain and Islam [31] found that institutional ownership can reduce dependence on financial resources and enhance the availability of internal and external financing for small and medium-sized enterprises in Bangladesh.

In the specific context of Guasave, barriers to access to financing are multiple and varied. In addition to the lack of financial resources, businesses may struggle to meet lender requirements, leading to a perception of risk and a reduced willingness to provide financing [20]. Likewise, the lack of information and training on the requirements for accessing financing can hinder the ability of SMEs to obtain the necessary resources for their growth [8].

Guasave-based companies constantly face challenges that force them to make decisions that, in most cases, jeopardize their stability. Managers have various resources that allow them to make timely decisions, considering the internal situation and available information. The complex environment in which companies in the region operate hinders a quick diagnosis, only in cases where the manager has available information and the expertise to act immediately [32].

Therefore, it is necessary to understand the specific barriers to access to financing for SMEs in Guasave in order to propose practical solutions to improve access to financing and promote the growth and development of small businesses in the region. In this sense, this study aims to contribute to the existing literature on access to financing for SMEs in Mexico and provide a contextualized and specific perspective for Guasave, to enhance the understanding of the barriers to access to financing in the region and offer practical solutions to address these challenges.

3. Methodology

The methodology used in this study was based on a systematic literature review and the analysis of secondary data, aiming to analyze the financing situation in SMEs in Guasave, Sinaloa,

Mexico.

For the systematic literature review, various sources of information such as books, scientific journals, theses, and specialized publications on the topic were consulted. According to Carmona and Navarro, a systematic literature review is a rigorous method that allows obtaining a synthesis of the available information on a specific topic and can be a useful tool for developing a solid theoretical framework in research [33]. In a recent study, Jiménez-Rico et al. [34] used a similar methodology to analyze the financing situation in small and medium-sized enterprises in Mexico City, finding that the lack of access to financing and financial knowledge are the main obstacles to the growth of these businesses.

For the analysis of secondary data, statistical data from INEGI and other government sources were utilized. Czaja and Blair point out that the analysis of secondary data can be a viable alternative to primary data collection, as it allows saving time and resources, and in many cases provides reliable and updated data [35]. In a similar study, Fong et al [36] used INEGI data to analyze the situation of small and medium-sized enterprises in the state of Jalisco, Mexico, finding that limited access to financing and lack of financial education are the main challenges faced by these businesses.

The scope of this study is exploratory and descriptive in nature. Exploratory research involves searching for information on an unknown or little-studied topic. This type of research is used to gather data and information about the problem or research topic. According to Creswell [37], exploratory research aims to generate ideas, identify variables, and establish hypotheses that may be the subject of more rigorous studies in the future. On the other hand, descriptive research focuses on reporting specific characteristics or phenomena through the collection and analysis of data. According to Neuman, descriptive research is used to describe the behavior, attitudes, and opinions of the target population [38].

These types of research are complementary and can be combined to create an exploratory-descriptive research design. This type of research is used to collect data on a topic or problem and describe the characteristics of the target population. According to López and Gutiérrez, exploratory-descriptive research allows obtaining preliminary information about the research problem or topic, as well as describing the characteristics of the target population [39]. Additionally, this type of research can help identify possible variables and relationships among them that may be the subject of more rigorous studies in the future.

To achieve this, a literature review and statistical analysis are proposed, as they highlight that the lack of information and training on the requirements to access financing, the perception of risk by financial institutions, and the difficulties in accessing financing are some of the main barriers that hinder access to financing [8; 20].

4. Results Analysis

In comparison to the financing of microenterprises in other countries, it can be observed that Mexico, overall, has a low level. According to the World Bank, Mexico ranks 92 out of 190 countries in terms of ease of obtaining financing, indicating an unfavorable environment for MSMEs in terms of credit access. In contrast, countries like Singapore, New Zealand, and Hong Kong rank at the top of the list, indicating they have effective policies and programs to support

small businesses [40].

In comparison to other countries in Latin America, financing for SMEs in Mexico is below the regional average. According to the Inter-American Development Bank (IDB), the level of financing for SMEs in Mexico is approximately 17% of GDP, while the regional average is 25%. Additionally, the IDB report indicates that Mexico has a low level of banking penetration, making it challenging for SMEs to access credit [41].

Regarding the specific situation in the municipality of Guasave, Sinaloa, it can be said that MSMEs face similar challenges to those in other regions of Mexico. However, it is important to note that, according to INEGI data, 60.8% of businesses in Sinaloa are enterprises with fewer than 10 employees, indicating that financing for this sector is crucial for the economic development of the region [42].

In the regional context, it was found that the majority of small businesses do not have sufficient financing to grow and develop adequately. According to the Bank of Mexico [43], financing remains insufficient, limiting their ability to innovate and expand. Additionally, it was observed that MSMEs in Guasave have limited access to bank loans due to a lack of collateral and the difficulty in demonstrating their repayment capacity.

On the other hand, it was identified that small businesses in Guasave tend to resort to informal sources of financing, such as family or friends' loans, which can result in higher interest rates and increased risks. According to Hernández et al., the use of informal sources of financing can be a viable strategy for SMEs, but it also involves financial risks and complicated personal relationships [44].

It was also found that there is a lack of knowledge and training in financial matters among small business owners in Guasave. According to studies conducted by the National Institute of Entrepreneurship (INADEM), the lack of financial training is one of the main barriers to the success of businesses in Mexico [45].

Access to financing for small businesses in Guasave, Sinaloa is limited, representing a barrier to their growth and development [46]. This is a common issue in Mexico and other countries in the region. It is necessary to implement effective government policies and programs to promote financing and improve the financial literacy of small business owners. Additionally, a stable economic and political environment is required for small businesses to have access to adequate financing and contribute to local economic development [42,43,44].

5. Discussions

The findings indicate that the lack of financing is a common problem among small businesses, and the main reasons are the lack of access to credit, lack of collateral, and lack of information about available financing options. Lack of access to credit is a recurring problem in small businesses, implying that these businesses have limitations in obtaining the necessary capital for their operation and growth [47].

In this regard, the lack of collateral represents a significant barrier to accessing credit [48]. Furthermore, the lack of information about available financing options can lead small

businesses to not know how to access financing, further limiting their growth opportunities [49].

Therefore, it is necessary to develop strategies that enable small businesses to access financing. This could include strengthening government programs that promote access to credit for small businesses and increasing information about available financing options. It is also important for businesses to work on improving their credit profiles and generating collateral, which could increase their chances of accessing credit [50].

Access to financing remains a challenge for small businesses in Guasave, Sinaloa, Mexico. The main barriers identified in this study are the lack of access to credit, lack of collateral, and lack of information about available financing options. Therefore, strategies are needed to enable small businesses to overcome these barriers and access financing for their growth and development.

The results allow us to explore possible solutions such as the implementation of training and advisory programs for small businesses on how to access financing, strengthening collateral to obtain loans, and the development of specific financing programs for rural areas [51].

6. Conclusions

After conducting a comprehensive analysis of the data obtained through the methodology used, we can draw the following conclusions about financing in small businesses in Guasave, Sinaloa, Mexico:

Firstly, it was observed that most small businesses in Guasave have limited access to external financing sources due to various barriers such as lack of collateral, high credit risk, and inadequate financial knowledge [52]. Additionally, low-income levels and lack of resources also limit their ability to secure traditional bank loans [51].

Secondly, it was identified that small businesses in Guasave resort to various financing strategies, such as internal financing, seeking private investors, and utilizing microcredits [53]. However, these strategies also have limitations in terms of quantity and scope.

Finally, the need for more effective government policies and increased cooperation between businesses, banks, and other financial institutions to improve access to financing for small businesses in Guasave is emphasized [54]. Additionally, the implementation of financial education and counseling programs for local entrepreneurs is suggested to enhance their financial skills and increase their ability to access external financing sources [55].

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