

**ACCESS TO FINANCE FOR EMERGING ENTREPRENEURS:
FUNDING PATHWAYS AND CHALLENGES IN ESTABLISHING
NEW ENTERPRISES**

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Abstract

Access to finance is one of the most critical factors influencing the establishment and sustainability of new enterprises. Emerging entrepreneurs often possess innovative ideas and entrepreneurial motivation but face significant financial constraints during the early stages of business formation. This paper examines the various sources and pathways through which emerging entrepreneurs access finance and analyses the major challenges they encounter in the process. The study adopts a conceptual approach based on secondary data drawn from books, journals, government reports, and institutional publications. It highlights the role of personal savings, institutional finance, government schemes, digital finance, and alternative funding sources in supporting enterprise creation. The paper further identifies key barriers such as lack of collateral, limited credit history, procedural complexities, and low financial literacy. The study emphasizes the need for supportive policies, financial inclusion initiatives, and institutional mechanisms to improve access to finance for emerging entrepreneurs. Strengthening financial accessibility is essential for promoting entrepreneurship, employment generation, and inclusive economic growth.

Keywords: Emerging Entrepreneurs, Access to Finance, Funding Pathways, New Enterprises, Financial Challenges

Introduction:

Entrepreneurship plays a vital role in economic development by fostering innovation, employment generation, and wealth creation. Emerging entrepreneurs, particularly first-time business founders, contribute significantly to enterprise creation and economic diversification. However, the establishment of new enterprises requires adequate financial resources to meet initial investment needs, operational expenses, and growth requirements. In many developing economies, including India, access to finance remains a major constraint for emerging entrepreneurs. Despite the presence of financial institutions and government support schemes, new

entrepreneurs often face difficulties in securing timely and sufficient funding. These challenges hinder enterprise formation and increase the risk of early business failure. Therefore, understanding funding pathways and identifying the challenges in accessing finance is crucial for strengthening the entrepreneurial ecosystem.

Objectives of the Study: The objectives of the study are:

1. To examine the importance of access to finance for emerging entrepreneurs.
2. To identify the major sources of finance available for establishing new enterprises.
3. To analyse the challenges faced by emerging entrepreneurs in accessing financial resources.
4. To study the role of institutional and policy support in improving financial access.
5. To suggest measures for enhancing access to finance for emerging entrepreneurs.

Statement of the Problem: Despite increased policy focus on entrepreneurship development, emerging entrepreneurs continue to face significant difficulties in accessing finance. Financial institutions often perceive new enterprises as high-risk ventures due to lack of credit history, collateral constraints, and uncertain cash flows. Procedural complexities, limited awareness of funding schemes, and high cost of borrowing further aggravate the problem. These financial barriers restrict the growth of new enterprises and discourage potential entrepreneurs. Addressing these issues is essential for promoting sustainable entrepreneurship and inclusive economic growth.

Need and Significance of the Study: The study is significant for the following reasons:

- Access to finance is a major determinant of entrepreneurial success and enterprise survival.
- Understanding financial barriers helps policymakers design effective support mechanisms.
- The study highlights the financial needs of emerging entrepreneurs, particularly in MSME and startup sectors.
- It contributes to academic literature on entrepreneurship and financial inclusion.
- The findings are useful for financial institutions, support agencies, and entrepreneurship development organizations.

Sources of Finance for Emerging Entrepreneurs :Innovative Funding Opportunities for Emerging Entrepreneurs

Level I: Innovative and Highly Accessible Funding Sources for Emerging Entrepreneurs

1. FinTech-Based Digital Lending Platforms: Digital lending platforms use technology-driven credit assessment methods such as transaction data and cash flow patterns. These platforms offer quick, small-ticket loans with minimal

documentation, making them suitable for entrepreneurs who lack collateral and formal credit history.

2. Peer-to-Peer (P2P) Lending: P2P lending platforms connect individual lenders directly with entrepreneurs through online portals. By eliminating traditional financial intermediaries, these platforms reduce borrowing costs and simplify access to funds for early-stage entrepreneurs.

3. Crowdfunding Platforms: Crowdfunding enables entrepreneurs to raise funds from a large number of individuals based on innovative ideas or social appeal. Reward-based and donation-based crowdfunding models are particularly suitable for startups at the idea or prototype stage.

4. Government-Supported Collateral-Free Schemes: Government initiatives and credit guarantee schemes provide financial support without requiring collateral. These schemes reduce lender risk and encourage banks and financial institutions to support new entrepreneurs.

Level II: Innovative but Selectively Accessible Funding Sources

1. Impact Investment: Impact investment supports enterprises that generate measurable social or environmental benefits along with financial sustainability. Entrepreneurs operating in sectors such as education, healthcare, and sustainability may access this funding if they demonstrate clear impact objectives and basic operational feasibility.

2. Social Finance Mechanisms: Social finance includes instruments such as social bonds and blended finance, which aim to fund socially beneficial projects. Access to such funding requires alignment with social goals and the ability to demonstrate potential impact outcomes.

3. Incubator and Accelerator-Based Funding: Incubators and accelerators provide seed funding along with mentoring and infrastructure support. However, entry is competitive and limited to entrepreneurs with innovative and scalable ideas.

Level III: Advanced and Generally Inaccessible Funding Sources for New Enterprises

1. Angel Investors: Angel investors provide equity funding to high-potential startups. However, they typically invest in ventures with validated business models, making access difficult for entrepreneurs at the initial stage.

2. Venture Capital Funding: Venture capital firms focus on high-growth enterprises with strong market traction and scalability. Emerging entrepreneurs often fail to meet these requirements due to lack of operational history.

3. Equity Share Issuance and SME Exchange Listing: Raising funds through equity markets requires regulatory compliance, financial disclosures, and legal procedures, which are beyond the capacity of newly established enterprises.

4. Mutual Fund and Private Equity Investments: Mutual funds and private equity investors prefer established firms with proven financial performance. As a result, emerging entrepreneurs cannot access these instruments during the early stage.

Challenges Faced by Emerging Entrepreneurs: Despite multiple funding options, emerging entrepreneurs face several challenges:

- **Lack of Collateral:** Most new entrepreneurs do not possess adequate assets to secure loans.
- **Limited Credit History:** Absence of past financial records makes credit evaluation difficult.
- **Complex Procedures:** Lengthy approval processes and extensive documentation discourage entrepreneurs.
- **High Cost of Borrowing:** High interest rates and rigid repayment schedules increase financial stress.
- **Low Financial Awareness:** Limited knowledge of financial products and government schemes restricts access.
- **Risk Perception:** Financial institutions often view new enterprises as risky due to uncertain returns
- **Emerging entrepreneurs often face severe financial constraints during the initial stage of enterprise formation.** Certain funding avenues such as share issuance, mutual fund investments, and venture capital are generally **not feasible** for them due to structural and practical limitations.
- **Limited Access to Advanced Investment Instruments** like Equity financing through share issuance, venture capital funding, Angel investment, Private equity, Mutual fund-linked investments, IPO and SME exchange listing, Convertible debentures and preference shares

1. Inability to Raise Funds Through Shares: Issuing shares is a form of equity financing that is suitable mainly for established firms with proven track records. Emerging entrepreneurs cannot collect funds through shares because:

- New enterprises lack **business history and financial performance records**
- There is **no established goodwill or market reputation**
- Legal and regulatory requirements for issuing shares are complex and costly
- Investors are unwilling to invest in unknown and unproven ventures

Therefore, equity financing through public or private share issuance is not a practical option for first-time entrepreneurs.

2. Impracticality of Mutual Fund Investment: Mutual funds are **investment instruments**, not funding sources for business startups. Emerging entrepreneurs cannot depend on mutual funds because:

- Mutual funds require **initial capital for investment**, which new entrepreneurs lack
- Mutual fund units are meant for **wealth creation**, not enterprise financing
- Funds raised from mutual fund investments cannot directly finance business establishment
- Diverting limited personal savings into mutual funds increases financial risk

Hence, mutual funds are unsuitable as a funding pathway for entrepreneurs who do not possess surplus capital.

3. Limited Access to Venture Capital: Venture capitalists focus on ventures with high growth potential, scalability, and strong market traction. Emerging entrepreneurs find it difficult to attract venture capital because:

- They lack **goodwill, market validation, and revenue models**
- Venture capitalists prefer enterprises with **proof of concept**
- High risk and uncertainty at the idea or early execution stage
- Venture capital funding is competitive and selective

Without an established business model and credibility, emerging entrepreneurs are often excluded from venture capital financing.

4. Absence of Goodwill and Creditworthiness: Goodwill plays a critical role in accessing advanced funding sources. Emerging entrepreneurs generally do not have:

- Established brand value
- Creditworthiness or repayment track record
- Industry networks and investor confidence

As a result, sophisticated funding options remain inaccessible at the early stage.

5. Difficulty in Accessing Angel Investment: Angel investors provide early-stage equity capital, but access to such funding is limited for new entrepreneurs because:

- Angel investors prefer founders with prior entrepreneurial or industry experience
- New entrepreneurs often lack strong professional networks to reach angel investors
- There is absence of proof of concept or early market traction
- High probability of business failure increases perceived risk
- Investors expect clear growth vision and exit possibilities

Therefore, despite being an early-stage funding source, angel investment remains difficult to access for first-time entrepreneurs.

6. Inaccessibility of Private Equity Funding: Private equity financing is suitable for well-established and financially stable enterprises. Emerging entrepreneurs face exclusion because:

- Private equity firms invest in mature businesses with stable cash flows
- New enterprises lack operational scale and governance structures
- Long-term profitability and risk mitigation are uncertain
- Investment size and expectations exceed startup requirements

Hence, private equity funding is not feasible for enterprises at the initial stage of formation.

7. Constraints in IPO and SME Exchange Listing: Raising funds through IPOs or SME exchange listing requires advanced institutional readiness. New entrepreneurs face challenges due to:

- Strict regulatory and disclosure requirements
- Mandatory audited financial statements and compliance history
- High cost of listing and professional advisory services
- Minimum capital and operational track record requirements

As a result, IPOs and SME exchange listings are impractical funding options for newly established enterprises.

8. Limitations of Convertible Debentures: Convertible debentures combine debt and equity features, requiring financial stability. Emerging entrepreneurs face difficulties because:

- Investors expect assured repayment capacity
- Conversion terms depend on future valuation clarity
- New enterprises have uncertain cash flows
- Creditworthiness is weak at the startup stage

Therefore, issuing convertible debentures is not a viable financing option for new entrepreneurs.

9. Unsuitability of Preference Share Financing: Preference shares involve fixed dividend obligations and priority claims. New entrepreneurs face barriers because:

- Enterprises cannot assure regular dividend payments
- Profitability is uncertain in the early stages
- Investors demand lower risk and stable returns
- Legal structuring and valuation complexities exist

Thus, preference share financing is generally avoided by new enterprises.

“Early stage entrepreneurs are unable to access funding through share issuance, mutual fund investments, or venture capital during the early stage of enterprise formation due to the absence of initial capital or start-up capital, business credibility, and goodwill, making such funding avenues largely impractical.” Due to lack of initial capital, goodwill, creditworthiness, and operational history, emerging entrepreneurs are unable to access advanced and sophisticated investment instruments. These limitations reinforce the need for innovative, alternative, and inclusive funding mechanisms at the startup stage.

Policy Suggestions: To improve access to finance for emerging entrepreneurs, the following measures are suggested:

- Simplification of loan procedures and documentation requirements
- Expansion of collateral-free and credit guarantee schemes
- Strengthening digital finance and FinTech-based lending models
- Promotion of financial literacy and entrepreneurship education
- Effective implementation and outreach of government funding schemes
- Institutional support through incubators, mentoring, and advisory services

8. Conclusion:

Access to finance is a fundamental requirement for emerging entrepreneurs seeking to establish new enterprises. Although various funding pathways exist, significant challenges continue to limit financial accessibility. Addressing these challenges requires coordinated efforts from policymakers, financial institutions, and entrepreneurship support organizations. Enhancing financial inclusion, improving institutional mechanisms, and strengthening financial literacy can create a supportive environment for emerging entrepreneurs. Improved access to finance will not only

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facilitate enterprise establishment but also contribute to employment generation and inclusive economic development.

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