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ACCESS TO FINANCE FOR SMALL AND MEDIUM ENTERPRISES IN GHANA: AN EXAMINATION OF SOURCES AND CONDITIONS FROM 2016 TO 2023

Stephen Oteng
Research Scholar, Parul Institute of Commerce
Faculty of Commerce, Parul University, India
stephen1442003@gmail.com

Ashwinkumar A. Patel, PhD
Assistant Professor, Parul Institute of Commerce
Faculty of Commerce, Parul University, India
ashwinkumarpatel528@gmail.com

Abstract

In Ghana, small and medium enterprises (SMEs) account for about 90% of businesses and contribute to over 80% of employment. However, Ghana faces the most significant financing gap for SMEs, with an estimated $4.8 billion deficit. The current study analyzed the sources of financing for SMEs and their conditions in Ghana from 2016 to 2023. Using a purposive and simple random sampling approach, a sample size of 121 SMEs was obtained from 12 of the 16 regions in Ghana. Cross-tabulation with Chi-square analysis and Pearson's correlation analysis were adopted for the quantitative analysis. The study findings showed that SMEs in Ghana predominantly rely on internal funds and short-term debt, with limited access to equity financing, grants, and government financial support. The study further found that SMEs have a high cost of finance and a complex nature of access to finance regarding the provision of collateral and financial statements. The study recommends that the Government of Ghana, through GEA, expand soft loans and matching grants to cover more of the SMEs in Ghana.

Keywords: Access, Financing, Conditions, Examination, Sources, Small and Medium Enterprise

INTRODUCTION

Global statistics on small and medium enterprises (SMEs) demonstrate that SMEs constitute 90 % of privately owned enterprises, most established in developing economies (World Bank Group, 2018). The existing data further show that about 90 % of most jobs are created by privately owned SMEs, representing approximately 52%of the jobs in sub-Saharan Africa (Agbola & Amoah, 2019). SMEs' role in shaping African countries' economies is enormous (Agyapong et al., 2021). However, limited access to finance by SMEs operating in the continent stifles growth in the sector (Abor et al., 2019; Kato, 2021). This re-emphasizes the observation made in prior studies (Gyimah *et al.,* 2022; Togbe, 2023) that availability, accessibility, and affordability of finance are the major factors in the growth and success of small and medium enterprises (SMEs). However, as reported in some studies (World Bank, 2023), there are sizeable gaps in access to finance for thousands of businesses in Africa at large, and Ghana in particular, typically SMEs, that struggle to meet the collateral, track record, or size requirement of traditional funding sources. As a result of this challenge, only half of the SMEs in Ghana have accessed credit from banks – 75 % of which is shorter than 3 years in tenor – and only a handful raise private equity or venture capital funding each year capital (Impact Investing Ghana, 2022). The World Bank (2017) has also observed that Ghana faces the largest financing gap for SMEs in Africa, with an estimated $4.8 billion deficit. Consequently, 72 % of Ghanaian SMEs encounter financial constraints, as the $7.5 billion credit demand from SMEs significantly exceeds the available $2.7 billion financing. Approximately 90 % of businesses in Ghana are SMEs, mirroring the global average (Ghana Enterprise Agency, 2023). SMEs, particularly start-ups and young firms, encounter greater difficulties in accessing finance, necessitating the exploration of new financing avenues (Kanojia *et al.,* 2023). Adjabeng and Osei (2022) further indicated that some of the problems faced by the SMEs in Ghana were lack of access to credit facilities, inefficiencies with their management, inability to capitalise on advanced technology, and regulatory and legal constraints. Aryeetey (2010) also found that in Ghana, only half of SMEs' applications for formal finance, such as bank loans, had any chance of being considered, and about two-thirds of SME loans are likely to be turned down (Kuruppu & Azeez, 2023). Evidence from the above studies demonstrates that attempts have been made by a significant number of researchers to address access to finance by SMEs in Ghana and, to a large extent, Africa. However, the critical concern is the failure of their existing studies to compare both the sources of financing for SMEs in Ghana and the conditions of securing that funding to meet their investment needs. This study attempts to address the existing gap in the literature by asking the following questions: What are the main sources of finance for SMEs in

Ghana? What are the conditions and requirements for accessing finance from these sources? What are the challenges faced by SMEs in accessing finance in Ghana?

This study aims to answer these questions and make recommendations to enhance the availability, accessibility, and affordability of SME financing. The remaining part of the study discusses the literature review, research methodology, analysis and discussion of results, conclusion, and recommendations.

REVIEW OF LITERATURE

Definition of SMEs within the context of Ghana

The first official definition of SMEs in Ghana was formulated and announced in 1980 by the National Board for Small Scale Enterprise (NBSSI) now Ghana Enterprise Agency (GEA) in line with Section 4 of the NBSSI Act 434 of 1981, which mandates the institution to define SMEs for the country. SMEs in Ghana are defined by the following variables as indicated in Table 1 below:

Table 1: SMES Classification in Ghana

Enterprise Category	Employment Size (Permanent staff)	Turnover	Assets
Small	6-30	US$25,001-US$1,000,000	US$25,001-US$1,000,000
Medium	31-100	US$1,000,001-US$3,000,000	US$1,000,001-US$3,000,000

Source: Ghana Enterprise Agency, 2023

Historical Background of SMEs in Ghana

Small and Medium Enterprises (SMEs) in Ghana originated in the pre-colonial era, where the middle class was trained to manage European merchants' businesses. However, SME development stalled during the first president's tenure, as he viewed the private sector as a political threat and implemented discouraging policies (Aryeetey, 2010). The economic setbacks 1980s pushed formal sector workers to create SMEs as a secondary revenue source, prompting the government to enact supportive policies. In 1981, the National Board for Small Scale Industries (NBSSI), now the Ghana Enterprises Agency (GEA), was established under Act 434 to oversee SME activities. (GCB Bank Plc., 2022). The Technology Industrial Service and Technology Transfer Unit were established in 1987 to enhance technology adaptation. Further policy reforms, such as the Private Sector Advisory Group and the repeal of the Manufacturing Industries Act 1971 (Act 356), strengthened the private sector and SMEs.

Theoretical Underpinning: Resources-Based Theory

The study considers Resource-Based Theory (RBT) as a suitable theoretical underpinning to provide a theoretical foundation for the study's analysis and discussion. Resource-based theory (RBT) is a strategic management framework that emphasizes a company's ability to obtain, develop, and employ unique resources and capabilities that are valuable, uncommon, difficult to duplicate, and non-substitutable, that gives the company a competitive advantage over its rivals (Helfat & Peteraf, 2003). To achieve and maintain success, the RBT emphasizes internal resources more than external market conditions (Barney, 2007). Penrose (1959; 2009) is the first contributor who introduced Resource-Based Theory (RBT) by presenting a model for productive possibilities, diversification strategy, and efficient resource management for enterprises (Utami & Alamanos, 2023).

Sources of Financing for SMEs

Sources of financing are the various channels through which businesses, especially emerging market enterprises (EMEs), can secure capital to fund their operations, growth, and expansion (Godke et al., 2019; Ye & Kulathunga, 2019). For Ghanaian SMEs facing a significant financing gap, innovative solutions such as catalytic capital investment have emerged (Agyapong, 2020). This type of investment accepts higher risks or lower returns to generate a positive impact and attract additional conventional investors (Owen *et al.,* 2023). Additionally, government initiatives and development programs provide targeted financial support to bridge the funding gap for SMEs, particularly in sectors like agriculture and women-owned enterprises (Mbogori & Luketero, 2019). Attrams and Tshehla (2022) further indicated that in Ghana, angel investment and venture capital are SMEs' most preferred forms of external sources of alternative financing. Also, according to Agbozo and Yeboah (2021), the significant sources of finance for SMEs in Ghana are trade credit, bank overdrafts, and bank loans. In line with the available sources of financing for SMEs, this study dissected the multiple sources of financing for Ghanaian SMEs by scrutinizing both prevalent and unconventional sources. The study delved into the conditions set by financial institutions, revealing how sector-specific factors influence loan accessibility and terms. The analysis focused on understanding the financial system that shapes SME growth in Ghana.

Accessibility of Sources of Finance for SMEs

Accessibility and cost are two significant financial difficulties that African SMEs must overcome. The capacity of SMEs to obtain financing is referred to as accessibility (Runde et al., 2021). Because many SMEs in Africa are informal—not formally recognized as businesses—it is challenging to obtain funding (Mpofu & Sibindi, 2022). Moreover, accessibility issues are often present even for those officially registered. This is a big deal since businesses cannot develop and expand without operating capital (Runde et al., 2021). The accessibility of sources of finance for SMEs in Ghana is widely reported in the literature as a significant barrier, with issues such as stringent collateral requirements, high interest rates, and complex application procedures impeding financial access (Gyimah et al., 2022; Korankye-Sakyi, 2019). This current study addresses these challenges by quantitatively analyzing the conditions and specific financial sources available to SMEs, identifying key obstacles, and suggesting actionable recommendations to improve accessibility

Affordability of Sources of Finance for SMEs

The cost of capital, or how much it costs a business to obtain a loan or an investment, is affordability (Sathvik, 2023). In addition to the initial loan amount, the overall cost includes interest and processing expenses, such as hiring a lawyer to perfect the collateral (Runde et al., 2021). Due to local bank interest rates that are frequently in the double digits and occasionally higher than 20 % to 25 %, this presents a significant difficulty in Africa. Rates charged by alternative loan providers, such as internet lenders like Branch and m-Shwari or microfinance institutions, can reach up to 40 % to 50% (Simiyu & Otuya, 2020). SMEs are frequently discouraged from applying for finance because of high interest rates. As a result of the low level of credit affordability in the financial sector, SMEs throughout Africa are severely hampered by this lack of accessible financing. In Ghana, the study of Dorhetso *et al.* (2022) found that affordability of financial credit is vital for SMEs to access the required funding to enhance their business operations.

Sources of Financing Conditions for SMEs

Financial institutions, particularly commercial banks, utilize a variety of financing conditions to provide funds (debt financing) for businesses, particularly SMEs (Megersa, 2020; Wasiuzzaman & Nurdin, 2019). These conditions often include interest rates, loan guarantees, assessment of creditworthiness, and collateral requirements. Organization for Economic Cooperation and Development (OECD) (2020) included interest rates, collateral requirements, loan application procedures, average creditworthiness, and risk assessment standards among the key credit conditions for SMEs. The credit conditions are designed to balance the risk for the lender while providing the necessary capital for SMEs to operate and grow (Dietsch *et al.,* 2020; Yoshino & Taghizadeh-Hesary, 2019).

Based on the tenets of Resources-Based Theory, coupled with the primary objective of the study that sought to analyze the significant sources of financing for small and medium enterprises (SMEs) in Ghana and their conditions, from 2016 to 2023 period, the following hypotheses were formulated to guide the study's analysis:

Hypothesis 1: SMEs in Ghana rely heavily on surplus and short-term loans of finance due to limited access to long-term loans and equity finance.

Hypothesis 2: The conditions and requirements of accessing finance are a major barrier for SMEs in Ghana.

Hypothesis 3: The majority of SMEs in Ghana face significant challenges in accessing finance due to stringent collateral requirements.

METHODOLOGY

This section of the research paper focuses on an appropriate research methodology adopted to analyze the financing sources and conditions for SMEs in Ghana from 2016 to 2023. According to the Bank of Ghana (2023), inflation has fluctuated, influenced by factors like food prices, exchange rates, and global economic trends from 2016 to 2023. This trend necessitated the choice of this period which has been very crucial for Ghana's economic development. The rationale for this approach is to obtain precise, measurable insights into the financial landscape of SMEs. Critical subjects addressed include research design, sampling techniques, data collection instruments, and data analysis techniques such as frequencies, percentages, chi-square tests, and Pearson's correlation. These elements collectively informed the study's comprehensive analysis of SMEs' sources of finance and their conditions within the context of Ghana.

Study Design

The study employed a descriptive cross-sectional survey design by utilizing a quantitative research approach to collect and analyze the significant sources of financing for small and medium enterprises (SMEs) in Ghana and their conditions from 2016 to 2023.

Population, Sample and Sampling Technique

The target population was all the SMEs in the 16 regions of Ghana, estimated at 405,000, i.e., small enterprises (320,000) and medium (85,000), according to GCB Bank Inc. (2023). However, the study population was limited to manufacturing, service, and trading SMEs. The survey design was utilized, involving a sample size of 121 SMEs selected from 12 out of the 16 regions in Ghana. This represents a response rate of approximately 93% (121 of 130) of

SMEs sampled. The sample was drawn from the manufacturing, service, and trading sectors. Both purposive and simple random sampling techniques (Sabo & Lekan, 2019) were employed to ensure a representative sample of the SMEs in these sectors. Purposive sampling was used to select the SMEs to satisfy the inclusion and exclusion criteria. The simple random was also adopted to ensure that all sampled SMEs have an equal chance of being selected. The selection of SMEs was done in only the regional and district capitals in the 12 selected regions in Ghana.

Data Collection Instruments

Data was collected using structured questionnaires designed to capture various aspects of SMEs' demographics and financing, including the types of financial sources accessed, conditions of access, and the overall financial health of the SMEs. The questionnaires included closed and open-ended questions for detailed quantitative analysis (Dirgiatmo et al., 2020; Salvioni et al., 2021). Informed consent was obtained from all participants, and the data collected was used solely for their intended purposes (Hussein & Elmusharaf, 2019; Xu et al., 2020).

Variables and Measurement

The study mainly utilized three categories of variables and other scale and discrete variables: (i) continuous variables (short-term debt, long-term debt, equity, fixed asset, and net profit); (ii) categorical variables (Cost of Finance Condition, Access to Finance Procedure, and Time Required to Secure Finance) and (iii) binary variables [Cost of Finance Condition, 1 = expensive; 2 = not expensive), Access to Finance Procedure (1 = Easy; 2 = Complex), Time Required to Secure Finance (1 = Short period; 2 = Long period), and Awareness of existing sources of finance Awareness (aware = 1; Unaware = 2)]. The scale items and discrete variables aided the analysis based on frequencies and percentages. The categorical variables were used for chi-square analysis, while the continuous and binary variables were used for descriptive statistics and Pearson's correlation analysis (Nugroho et al., 2022; Pallant, 2020).

Data Analysis

Data preparation, coding cleaning, and analysis were executed using Microsoft Excel and Statistical Package for Social Sciences (SPSS) version 21. Four main analytical techniques were used to analyze the data presented in tables, charts, and graphs. These include frequencies and percentages, descriptive statistics, cross-tabulations, chi-square tests (non-parametric analysis), and Pearson's correlation (parametric analysis) (Agbenyegah, 2019; Chetty et al., 2024).

ANALYSIS AND FINDINGS

The objective of this study is to analyze the significant sources of financing for small and medium enterprises (SMEs) in Ghana and the conditions associated with accessing these funds. Data presentation begins with profiling the sampled SMEs, detailing their distribution across various regions and sectors. Following this, the analysis explores the SMEs' access to financing, examining the types and frequency of financial sources utilized. Finally, the conditions for accessing financing, such as cost, procedural complexity, and time requirements, are evaluated to provide comprehensive insights into the financing landscape for SMEs in Ghana.

Profile of Sampled SMEs

Table 2: Twelve of 16 Region and SMEs sampled to participate in the study

Region	Frequency	Per cent
Greater Accra	23	19.0
Ashanti Region	10	8.3
Western Region	11	9.1
Western North	5	4.1
Central Region	7	5.8
Upper West Region	12	9.9
Upper East Region	9	7.4
Northern Region	12	9.9
Volta Region	5	4.1
Eastern Region	5	4.1
Bono Region	12	9.9
Bono East Region	10	8.3
Total	**121**	**100.0**
SMEs Sectors		
Manufacturing	59	48.8
Service	45	37.2
Trading	17	14.0
Total	**121**	**100.0**
Annual Turnover indicating the status of SMEs		
US$25,000-US$1,000,000 (Small)	91	75.8
US$ 1,000,001-US$3,000,000 (Medium)	29	24.2
Total	**120***	**100.0**

Note *One no response captured

Table 2 reflects a diverse representation of SMEs across 12 of the 16 regions in Ghana, crucial for understanding regional variations in funding sources and conditions. Greater Accra had the highest representation with 19.0 %, indicating its significance as an economic hub. The Upper West, Northern, and Bono regions contributed 9.9 %, showing a broad distribution. Lower representation from regions like Western North and Volta (4.1% each) suggests potential regional disparities in SME financing. This distribution supports the study's objective to identify funding sources and conditions across different regions. The data further show that nearly half of the sampled SMEs operate in the manufacturing sector (48.8%), followed by the service sector (37.2%), and trading (14.0%). This distribution highlights the prominence of manufacturing and service sectors in SME operations, aligning with the sector-specific funding sources and conditions. The results show that 75.8 % of the sampled SMEs fall under the small enterprise category with an annual turnover of US$25,000-US$1,000,000, while 24.2 % are medium enterprises with turnovers of US$1,000,001-US$3,000,000. This highlights the predominant presence of small enterprises, which is crucial for understanding their specific financing needs and conditions.

Table 3: Distribution of Regions by Sector cross-tabulation

			Sector			**Total**
			Manufacturing	**Service**	**Trading**	
Region	Greater Accra	*Frequency*	10	9	4	23
		% in Region	43.5	39.1	17.4	100.0
	Ashanti Region	*Frequency*	5	4	1	10
		% in Region	50.0	40.0	10.0	100.0
	Western Region	*Frequency*	5	5	1	11
		% in Region	45.5	45.5	9.1	100.0
	Western North	*Frequency*	3	1	1	5
		% in Region	60.0	20.0	20.0	100.0
	Central Region	*Frequency*	3	4	0	7
		% in Region	42.9	57.1	0.0	100.0
	Upper West Region	*Frequency*	6	5	1	12
		% in Region	50.0	41.7	8.3	100.0
	Upper East Region	*Frequency*	5	2	2	9
		% in Region	55.6	22.2	22.2	100.0
	Northern Region	*Frequency*	8	3	1	12
		% in Region	66.7	25.0	8.3	100.0
	Volta Region	*Frequency*	1	3	1	5
		% in Region	20.0	60.0	20.0	100.0
	Eastern Region	*Frequency*	5	0	0	5
		% in Region	100.0	0.0	0.0	100.0
	Bono Region	*Frequency*	5	3	4	12
		% in Region	41.7	25.0	33.3	100.0
	Bono East Region	*Frequency*	3	6	1	10
		% in Region	30.0	60.0	10.0	100.0
Total		***Frequency***	**59**	**45**	**17**	**121**
		% within Region	**48.8**	**37.2**	**14.0**	**100.0**

The cross-tabulation (see Table 3) reveals regional variations in the sectoral distribution of SMEs. Manufacturing dominates in regions like Northern (66.7%) and Western North

(60.0%), while service is prevalent in Central (57.1%) and Volta (60.0%). Trading is least represented, with higher percentages in Greater Accra (17.4%) and Bono (33.3%). This sectoral analysis underscores the study's objective to identify region-specific funding sources and conditions, highlighting the diverse financial needs of SMEs across Ghana. The data suggests that the manufacturing and service sectors are crucial, indicating a need for targeted financial support to enhance accessibility and affordability.

SMEs access to financing

Table 4: Descriptive Statistics for Sources of Finance SMEs accessed from 2016-2023

	N	Minimum	Maximum	Mean	Std. Deviation
Short Term Debt	121	0.00	50,324,600.00	744,422.72	4,937,007.10
Long Term Debt	121	0.00	80,675,000.00	735,899.90	7,342,577.83
Total Debt	121	0.00	24,370,795.00	505,945.43	2,622,002.17
Equity	121	0.00	5,800,000.00	57,894.63	530,722.56
Fixed Asset	121	44,100.00	73,112,386.00	3,777,244.32	10,532,666.59
Fixed Category	121	1.00	5.00	2.35	0.82
Total Asset	121	82,000.00	72,389,000.00	4,345,924.36	10,660,005.86
Net Profit	120	7,500.00	78,120,000.00	1,214,321.62	7,348,879.66

From 2016 to 2023, as presented in Table iv, the sampled SMEs accessed various financing sources. Short-term debt averaged $744,422.72 with significant variability (SD: $4,937,007.10), and long-term debt averaged $735,899.90 (SD: $7,342,577.83). The total debt mean was $505,945.43 (SD: $2,622,002.17). Equity financing was notably lower, averaging $57,894.63 (SD: $530,722.56).

Fixed assets were substantial, averaging $3,777,244.32 (SD: $10,532,666.59), reflecting significant capital investment. The total assets averaged $4,345,924.36 (SD: $10,660,005.86). Net profit averaged $1,214,321.62 (SD: $7,348,879.66), indicating varied profitability.

Table 5: Distribution of whether or not SMEs had access to specific Sources of Finance (N 121)

	Yes		**No**	
Sources of Finance	**Frequency**	**Per cent**	**Frequency**	**Per cent**
Grant	43	35.50	78	64.50
Equity	18	14.90	103	85.10
Short-Term Debt	61	50.40	60	49.60
Long-Term Debt	32	26.40	89	73.60
Government Institution	27	22.30	94	77.70
Surplus	112	92.60	9	7.40
Tax Credit	1	0.80	120	99.20
Others	1	0.80	120	99.20

The data indicates (see Table 5) that between 2016 and 2023, the most common sources of finance accessed by sampled SMEs were surplus (92.6%) and short-term debt (50.4%). Grants were accessed by 35.5 %, while long-term debt was used by 26.4 %. Government institutions provided finance to 22.3 % of SMEs, and equity was the least accessed (14.9%). Tax credits and other sources were minimally utilized (0.8% each). These findings highlight the reliance on internal funds and short-term debt sources for SMEs in Ghana. Therefore, the hypothesis that SMEs in Ghana rely heavily on surplus and short-term loans of finance due to limited access to long-term loans and equity finance is accepted.

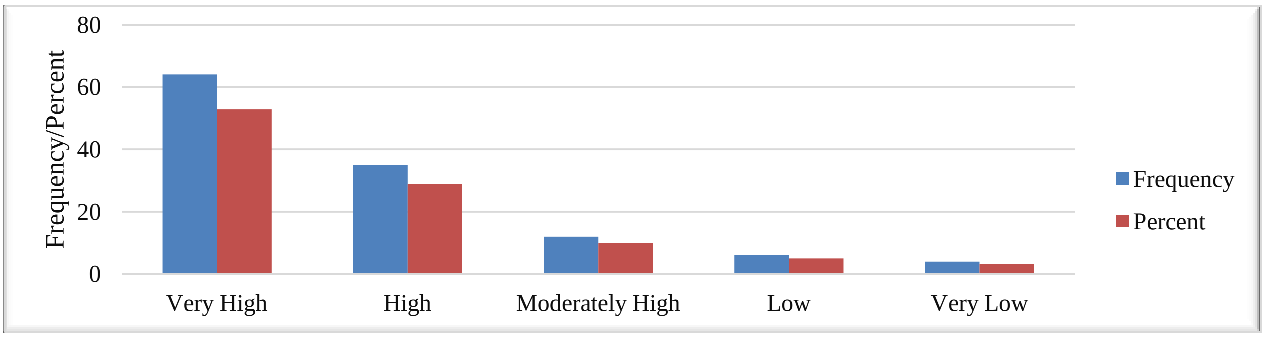

Figure 1. SMEs Awareness Level of Available Sources of Financing

The results indicate that SMEs' awareness of available financial sources is predominantly high, with 52.9% reporting very high awareness and 28.9% reporting high awareness. Only a small proportion of SMEs have moderately high (9.9%), low (5.0%), or meager (3.3%) awareness. This suggests that most SMEs are well-informed about their financing options. However, enhancing awareness further could improve accessibility and utilization of financial resources.

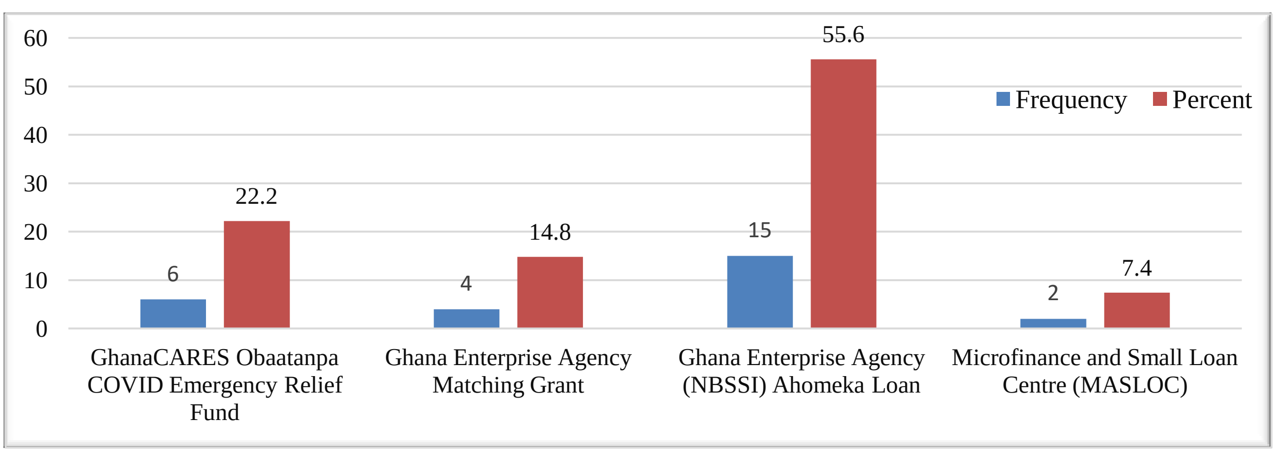

Figure 2: Financial Source from Government Institution/Programme

The results further show (see Figure 2) that from 2016 to 2023, the primary government funding source for SMEs was the Ghana Enterprise Agency (GEA/NBSSI) Ahomeka Loan, accounting for 55.6 % of the funds accessed. The GhanaCARES Obaatanpa COVID Emergency Relief Fund and the Ghana Enterprise Agency Matching Grant were accessed by 22.2 % and 14.8% of SMEs, respectively. Only 7% utilized funds from the Microfinance and Small Loan Centre (MASLOC). This distribution highlights the reliance on the Ahomeka Loan, supporting the availability and accessibility of government funding sources for SMEs in Ghana within a specific period.

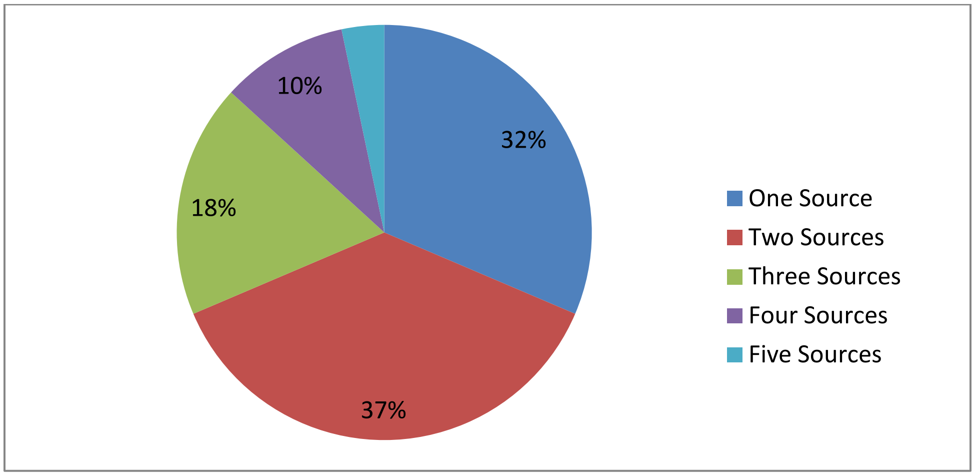

Figure 3: Numbers of Financial Sources

The data shows (Figure 3) that from 2016 to 2023, most SMEs secured financing from multiple sources, with 37.2 % accessing two sources and 31.4 % relying on one source. Additionally, 18.2 % of SMEs secured financing from three sources, 9.9% from four, and 3.3 %from five. This distribution underscores the diverse financing strategies SMEs adopt in Ghana, reflecting the study's objective to identify the number and variety of financial sources SMEs access and the conditions associated with securing these funds.

Table 6: Distribution of No of Financial Sources by Sector Crosstabulation

			Sector			**Total**
			Manufacturing	**Service**	**Trading**	
No of Sources	One Source	*Frequency*	20	12	6	38
		% within No of Sources	52.6	31.6	15.8	100.0
	Two Sources	*Frequency*	21	17	7	45
		% within No of Sources	46.7	37.8	15.6	100.0
	Three Sources	*Frequency*	9	9	4	22
		% within No of Sources	40.9	40.9	18.2	100.0

Four Sources	*Frequency*	5	7	0	12
	% within No of Sources	41.7	58.3	0.0	100.0
Five Sources	*Frequency*	4	0	0	4
	% within No of Sources	100.0	0.0	0.0	100.0
Total	***Frequency***	**59**	**45**	**17**	**121**
	% within No of Sources	**48.8**	**37.2**	**14.0**	**100.0**

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.721[a]	8	.366
Likelihood Ratio	11.741	8	.163
Linear-by-Linear Association	.510	1	.475
N of Valid Cases	121		

A cross-tabulation (see Table 6) was used to test whether the sector under which SMEs operate is associated with the number of financial sources from which SMEs could secure funds. The cross-tabulation and chi-square test results indicate no significant association between the sector in which SMEs operate and the number of financial sources they could secure funds from ($\chi^2 = 8.721$, $p = .366$). SMEs in manufacturing, service, and trading sectors accessed one to five financial sources with varying percentages, but no clear pattern emerged. Manufacturing SMEs had higher access to one (52.6%) and two (46.7%) sources, while service sector SMEs accessed up to four sources (58.3%) more frequently. This analysis suggests sectoral differences in accessing multiple funding sources, but SMEs could secure financing without statistically significant associations between sectors and the number of financial sources.

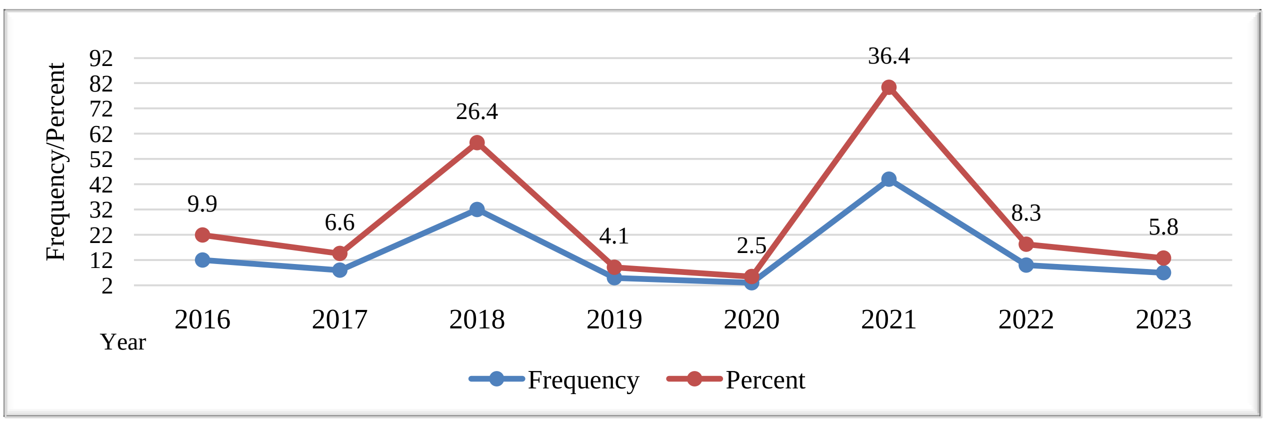

Figure 4: Favourable Year for SMEs Access to Financing from 2016-2023

The analysis of favourable access to finance years for SMEs from 2016 to 2023 indicates that 2021 and 2018 were the best years, with 36.4 % and 26.4% of SMEs securing sufficient financing, respectively. Conversely, 2020 and 2019 were the worst years, with only 2.5 % and 4.1 %of SMEs accessing financing. This data highlights significant yearly fluctuations in financing conditions, reflecting the study's objective to understand the temporal dynamics in SME financing accessibility in Ghana.

Conditions for access to financing for SMEs

Table 7: Description of Sources of Financing Conditions for SMEs

	Frequency	Per cent
Cost of Finance Description		
Too expensive	96	92.3
Very expensive	4	3.8
Condition very attractive	3	2.9
Very high	1	1.0
Total	104	100.0
Description of Procedure to secure fund		
Reasonable	61	91.0
Too complex	5	7.5
Easy	1	1.5
Total	67	100.0
Description of Time Required to Secure Fund		
On-time	62	93.9
Longer period	4	6.1
Total	66	100.0

The study reveals (see Table 7) that 92.3 % of SMEs find the finance cost too expensive, indicating a significant barrier to accessing funds. Procedures to secure financing are deemed reasonable by 91.0 % of respondents, suggesting that complexity is less of an issue than cost. Additionally, 93.9 % of SMEs report receiving funds on time, highlighting efficiency in the disbursement process. These findings align with the analysis of conditions such as cost, procedures, and time required to access financing, emphasizing the need for cost reduction to improve financial accessibility for SMEs in Ghana. Therefore the hypothesis that the conditions and requirements of accessing finance are a major barrier for SMEs in Ghana have mixed findings.

Table 8: Rating of Financial Institutions Conditions for Access to Financing by SMEs

Financial Institutions Preferred Conditions	**EXUNFBLE**		**UNFBLE**		**MDFBLE**		**FBLE**		**EXFBLE**	
	F	***%***	***f***	***%***	***f***	***%***	***f***	***%***	***f***	***%***
Proof of Creditworthiness	19	15.7	26	21.5	30	24.8	29	24.0	17	14.0
Submission of Business Plan	15	13.2	23	19.0	35	28.9	31	25.6	16	13.2
Provision of Financial Statements	17	14.0	17	14.0	45	37.2	30	24.8	12	9.9
Collateral Requirements	13	10.7	18	14.9	32	26.4	45	37.20	13	10.7

Provision of Guarantors	16	13.2	16	13.2	38	31.4	39	32.20	12	9.9
Business Profitability and Cash Flow	10	8.3	24	19.8	31	25.6	42	34.70	14	11.6
Professional Management Team	11	9.1	22	18.2	35	28.9	35	28.90	18	14.9
Total	**121**	**100.0**	**121**	**100.0**	**121**	**100.0**	**121**	**100.0**	**121**	**100.0**

Where;
EXUNFBLE: Extremely unfavorable
UNFBLE: Unfavourable
MDFBLE: Moderately favourable
FBLE: Favourable
EXFBLE: Extremely favorable
f: Frequency; %=Percentage

As depicted in Table 8, the study reveals that financial institutions prefer certain conditions for granting SMEs access to financing. Proof of creditworthiness was moderately favourable to favourable for 48.8 % of respondents. A business plan submission was viewed as moderately favourable by 54.5%, while the financial statement provision was viewed favourably by 62%. Collateral requirements were favourable for 47.9 %, and the provision of guarantors was moderately favourable to favourable for 63.6 %. Business profitability and cash flow were viewed favourably by 46.3%, and having a professional management team was moderately favourable by 57.8 %. These findings imply the need for policies that simplify and clarify financing conditions, making them more accessible and transparent for SMEs. Therefore the hypothesis that the majority of SMEs in Ghana face significant challenges in accessing finance due to stringent collateral requirements is rejected.

Table 9: SMEs Description of Conditions from Government Institution Source for accessing loans and grants

Conditions for Government Institution Source	Frequency	Per cent
The interest rate for government institution loans is very low	6	22.2
Disbursement usually delays	3	11.1
The condition of a 40% contribution to the matching grant is reasonable	2	7.4
The amount given by Government institutions is not enough for our business	4	14.8
Repayment of Government loans is not as difficult as the commercial banks	8	29.6
The general conditions of Government funds are flexible for our business	4	14.8
Total	**27**	**100.0**

The respondents provided varied descriptions of conditions for accessing loans and grants from government institutions (see Table 9). Notably, 29.6 % found government loan repayment easier than commercial banks, while 22.2 % appreciated the low interest rates. However, 14.8 % felt the funding was insufficient, and another 14.8 % considered the overall conditions flexible. Additionally, 11.1% noted delays in disbursement, and 7.4 % found the 40 % contribution to matching grants reasonable. These insights highlight the mixed perceptions of government financing, suggesting areas for improvement in disbursement efficiency and funding adequacy. These findings suggest the need for policy enhancements to improve disbursement efficiency, increase funding amounts, and maintain low interest rates.

Table 10: Conditions for access to financing and sources of financing for SMEs

SPSS output: Pearson Product Moment Correlation Matrix

		A	B	C	D	E	F	G	H	I
A	r	1								
	Sig.									
B	r	.941**	1							
	Sig.	.000								
C	r	-.017	.005	1						
	Sig.	.857	.957							
D	r	.533**	.341**	.219*	1					
	Sig.	.000	.000	.016						
E	r	.978**	.976**	.001	.502**	1				
	Sig.	.000	.000	.994	.000					
F	r	.152	.181	-.057	-.022	.172	1			
	Sig.	.115	.059	.553	.817	.076				
G	r	-.030	-.103	-.073	-.002	-.105	.238*	1		
	Sig.	.779	.339	.497	.983	.329	.026			
H	r	-.059	-.042	-.039	-.087	-.047	-.043	.025	1	
	Sig.	.617	.724	.743	.462	.693	.724	.836		
I	r	-.083	-.056	-.055	-.131	-.084	-.047	-.153	.125	1
	Sig.	.365	.540	.552	.151	.359	.629	.151	.292	

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

A	*Short Term Debt*
B	*Long Term Debt*
C	*Equity*
D	*Fixed Asset*
E	*Net Profit*
F	*Cost of Finance Condition [(binary; 1 = expensive; 2 = not expensive)]*
G	*Access to Finance Procedure [(Binary; 1 = Easy; 2 = Complex)]*
H	*Time Required to Secure Finance [(binary; 1 = Short period; 2 = Long period)]*
I	Awareness of existing sources of finance Awareness [(binary; aware = 1; Unaware = 2)]

The Pearson Product Moment Correlation Matrix (see Table 10) investigates the relationships between financing conditions and specific financial sources for SMEs. Significant findings include strong correlations between short-term debt and net profit ($r = 0.978$, $p < 0.01$), and fixed assets ($r = 0.533$, $p < 0.01$), indicating that higher short-term debt is associated with increased profitability and asset acquisition. Similarly, long-term debt correlates significantly with net profit ($r = 0.976$, $p < 0.01$) and fixed assets ($r = 0.341$, $p < 0.01$). However, many relationships were found to be insignificant. The cost of finance condition does not significantly correlate with other financial sources, showing correlations such as with short-term debt ($r = 0.152$, $p = 0.115$) and long-term debt ($r = 0.181$, $p = 0.059$). The access to finance procedure is insignificantly correlated with long-term debt ($r = -0.103$, $p = 0.339$) and net profit ($r = -0.105$, $p = 0.329$). The time required to secure finance shows no significant correlations with specific financial sources, with short-term debt ($r = -0.059$, $p = 0.617$) and long-term debt ($r = -0.042$, $p = 0.724$). These findings highlight the critical influence of financial conditions on SME financing decisions in Ghana, particularly emphasizing the significance of profitability and asset acquisition in financing.

DISCUSSION

From 2016 to 2023, SMEs in Ghana predominantly relied on internal funds and short-term debt for their financing needs, with equity financing being the least accessed source. This finding is consistent with prior studies (Abor & Biekpe, 2009; Wasiuzzaman & Nurdin, 2019), which identified a similar trend of heavy reliance on debt over equity among African SMEs. The limited use of equity financing suggests a potential area for policy intervention to encourage more diverse financing options, including promoting equity investment through incentives and education on its benefits (Amoa-Gyarteng & Dhliwayo, 2022). The awareness of available financial sources among SMEs was notably high, with a significant majority reporting high to very high awareness levels. This finding contradicts the study of Elhusseiny and Crispim (2022), which identified SMEs' lack of awareness as a barrier to accessing finance. The high awareness level in Ghana suggests that efforts to disseminate information about financial sources have been practical. However, the continued reliance on a few funding sources indicates that awareness alone is insufficient; there needs to be an improvement in the accessibility and attractiveness of diverse financing options (Aidoo, 2020; Ekwueme, 2019). Government funding sources, particularly the Ghana Enterprise Agency (GEA) Ahomeka Loan, were crucial for SMEs, accounting for most government-related financing. This finding aligns with the study of Abor & Biekpe (2009) which emphasized the importance of government interventions in SME financing. The dependence on the Ahomeka Loan highlights the need for expanding and diversifying government funding programs to include more accessible and varied financial instruments to support a broader range of SME needs and sectors (Asiedu et al., 2022; Ghana Enterprise Agency, 2022). Regarding the conditions for accessing financing, the finance cost was identified as a significant barrier, with many SMEs finding it too expensive. This finding is consistent with the study of Akpanyi and Xuezhou (2019), which noted high financing costs as a significant impediment for SMEs in developing countries. The implications for policy and practice are clear: There is a need for the Ghana government to reduce the cost of finance through subsidies, lower interest rates, or alternative financing models such as microfinance (Agyapong, 2020; Odoom et al., 2019). Additionally, while procedures for obtaining financing were deemed reasonable and disbursements timely, ongoing efforts to streamline processes further and ensure timely access to funds are essential for maintaining and improving SME growth and sustainability (Nyanzu & Quaidoo, 2017; Salvioni et al., 2021). The analysis of SMEs' financing in Ghana from 2016 to 2023 reveals fluctuating trends. Notably, 2021 and 2018 stood out as the most favourable years. Conversely, 2020 and 2019 were the least favourable. This underscores the dynamic nature of SME financing accessibility (World Bank, 2019; Sansa, 2019). Such fluctuations have significant implications for SME growth and economic stability. The statistically insignificant relationships the study found among various financing conditions and specific financial sources for SMEs in Ghana suggest that the cost of finance, access to finance procedures, and time required to secure finance do not substantially impact SMEs' ability to obtain different types of financing (Qamruzzaman & Jianguo, 2019). This indicates potential areas for policy improvement, as these conditions should ideally facilitate better access to financial resources, highlighting a need for targeted interventions to enhance SME financing environments. The identified relationship between financing conditions and specific financial sources for SMEs in Ghana could be attributable to the fact that SMEs would usually go for financial facilities with unfavourable conditions because all the financial institutions speak the same language, and there is no best alternative (Ackah et al., 2023; Ekwueme, 2019). This implies that the cost of finance may be expensive, access to finance procedures may be complex, and the required to access financing may be too long. However, these do not significantly influence SMEs' continuous utilization of available financial sources. On the other hand, the SMEs' awareness of various financial sources and their conditions is presented in the study's findings. However, due to limited access to sources of finance, they are more likely to continuously rely on unfavourable financial sources (Ackah et al., 2023; Amoa-Gyarteng & Dhliwayo, 2022). This is why the Resources-Based theory adopted in this study places greater emphasis on a company's ability to mobilize internal resources than relying on external market resources and conditions (Barney, 2007).

CONCLUSIONS

Based on the essential findings and discussion, the study concludes that SMEs in Ghana predominantly rely on internal funds and short-term debt, with limited access to equity financing. Despite high awareness among SMEs regarding available financial sources, the continued reliance on a few funding options indicates the need for policy interventions to promote diverse financing options. Government funding, mainly through the Ghana Enterprise Agency (GEA) is crucial in supporting SMEs in Ghana. Additionally, the high cost of finance and complex nature of access to financing by SMEs in terms of provision of collateral and guarantors, proof of creditworthiness, and provision of financial statements, among others, pose a significant barrier to SME financing. In addition, the study concludes that there are statistically insignificant relationships among various financing conditions and specific financial sources for SMEs in Ghana, suggesting that factors like the cost of finance, access procedures, and time required do not significantly affect SMEs' access to different financing types.

RECOMMENDATIONS

The paper recommends promoting equity investment by the government of Ghana, NGOs, and civil society organizations through incentives and education. Government financial institutions such as Ghana Enterprise Agency (GEA) and Microfinance and Small Loan Centre (MASLOC) should expand government funding programs to include diverse instruments and reduce the cost of finance through subsidies or alternative financing models. Policy recommendations would include the government's efforts to further streamline access to finance processes, ensure timely access to funds, and targeted interventions to enhance the overall SME financing environment to address barriers such as high costs and limited access to diverse financial sources. This underscores the need for targeted interventions by the Bank of Ghana to enhance SME financing environments. It calls for implementing standard measures, such as the Bank of Ghana's mandatory transparency in lending practices, to ensure financial institutions prioritize inclusiveness and fairness in their dealings with SMEs. Simplifying repayment processes and maintaining flexible conditions for financial institutions will better support SMEs in promoting their growth and sustainability in Ghana's economy.

Specific recommendations

1. Government and financial institutions can develop targeted financing programs for SMEs, considering their unique capital structure needs.
2. Tax policies can be designed to encourage SMEs to adopt optimal capital structures, such as tax deductions for interest expenses.
3. There should be an expansion of government programmes that provide financial support to SMEs and an increase in accessibility to grants and subsidies such as the Ghana Skills Development Fund to reduce reliance on high-interest debt.

4. The government and relevant institutions need to promote alternative financing options such as crowdfunding, venture capital, and angel investors to reduce SMEs' dependence on traditional debt financing.
5. Extensive awareness campaigns should be conducted by relevant state institutions and business associations to educate SMEs on the diverse funding sources available, and to reduce reliance on expensive financing options.
6. SMEs should consider offering shares to employees, leveraging their influence to facilitate loan acquisition, and using collectively owned assets as collateral.
7. Enhancement of physical asset capacity, enabling SMEs to leverage these assets as collateral when applying for loans.
8. Further studies can investigate the effectiveness of government interventions and alternative funding options for SMEs. Research can explore the impact of financing constraints on SMEs' growth, innovation, and job creation
9. Financial institutions can review collateral requirements to make financing more accessible to SMEs.
10. Initiatives can be implemented to educate SME owners on capital structure decisions and their implications.
11. Regular monitoring and evaluation of SME financing policies can help identify areas for improvement.
12. The government can establish credit guarantee schemes to mitigate lending risks and increase SME access to financing.
13. Financing programs can be tailored to address specific industry needs, such as agriculture or manufacturing.
14. Enhancement of SME's physical asset capacity, enabling them to leverage these assets as collateral when applying for loans.

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