THE ROLE OF MICROCREDIT AND FINANCIAL CAPABILITY IN THE GROWTH OF SMES: A CASE STUDY OF MONTSERRADO COUNTY, LIBERIA.

By

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List of Abbreviation

SMEs	**Small and Medium Enterprises**
MFI	**Microfinance Institutions**
GoL	**Government of Liberia**
CBL	**Central Bank of Liberia**
GDP	**Gross Domestic Product**
OECD	**Organization for Economic Cooperation and Development**
LIGIS	**Liberia Institute of Statistic and Geo Information Service**
SPSS	**Statistical Package for Social Sciences**
LRA	**Liberia Revenue Authority**
PPCC	**Public Procurement & Concession Commission**

DEDICATION

To my beloved mother, Joyce Maima Kiawu, thanks for preparing me for this journey, thanks for your prayers, this is for you.

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Abstract

SMEs overtime has been important in the Liberian economy in the aspect of employment, reduction in vulnerability and poverty alleviation. The growth of SMEs in the private sector increases employment which significantly reduces the burden of employment on government in low income countries and emerging economies like Liberia. Despite the importance of SMEs in Liberia, the sector faces a series of impediments that hamper their growth and development, access to credit, lack of finance and financial capability of SMEs owners has been prominent growth impasse in numerous studies that SMEs face. This paper therefore sought to examine the effect of microcredit and financial capability on the growth of SMEs in Montserrado County, Liberia by examining whether access to credit and financial capability influence enterprise growth among SMEs owners in Montserrado County. The study established the practical role of financial capability of SMEs owners, indicators of success of SMEs and indicators of access to credit as well as the relationship between access to credit and SMEs growth and the relationship between financial capability and SMEs growth. To achieve the study objective, a field survey consisting of a structured questionnaire was used and administered to SMEs owners in Montserrado County. Qualitative data was collected during the interview period, a total sample of 119 respondents who were SMEs owners and managers were interviewed from a population of 357 enterprises, 96 respondents were then analyzed due to the removal of 23 interviews that had interview duration of less than 10 minutes for data integrity purpose. The data was analyzed using SPSS and results were presented in tables, graphs and interpretation was made based on research objectives. The study found that access to credit by SMEs was very poor. This can be noted from the fact that even at the startup level; only 10.3% of the participants had access to loans from formal financial institutions as their startup capital. Moreover, the study established that a very small portion (26%) of the participants had accessed financial literacy training, despite a low percentage of financial literacy training, over 75% of the respondents were doing good in terms of financial capability, this is due to the fact that the study recorded over 70% respondents had university degree and diplomas which enhanced their financial knowledge for the business. This study recommends that financial institutions come up with target lending to SME in Liberia which provides an adequate source of financing and additionally develop products which suit the nature of their businesses.

CHAPTER ONE
INTRODUCTION

1.1. Background

Small and Medium Enterprises (SMEs) assume a pivotal function in promoting and enhancing economic growth and long-term sustainable development. In Sub-Saharan Africa, small and medium-sized enterprises account for around 90% of domestic enterprises and over 60% of employment in most economies (Ahiawodzi & Adade, 2012). SMEs have grown increasingly important in Liberia's economy in recent years and the government is working to promote them through loans, education, technical assistance, and the improvement of the domestic business climate, legal, and regulatory framework (Gorlorwulu, 2011; GoL, 2013). Small businesses are those with an investment of less than $25,000 and medium businesses are those with an investment of less than $50,000, according to the Liberian government and the National Investment Commission (Small and Medium Enterprises Assessment, 1989). SMEs create employment opportunities, yet, most SMEs fail due to lack of credit which increases their proficiency to serve as an engine of growth and sustainability, and financial capability that provides owners of SMEs with the required financial knowledge to make intelligent financial decision. Credit access has long been viewed as a significant impediment to the expansion and improvement of SMEs in sub Saharan countries (Sacerdoti, 2005). SMEs in Liberia have faced an age long problem of acquiring credit from banks, thus, shifting most SMEs to seek financial access from microfinance institutions, their model is suitable for new and struggling SMEs when compared to commercial banks, they target impoverished individuals who are seen as risky borrower, yet the reimbursement rate tend to be positive (Zeller and Sharma, 1998). Therefore, Microfinance serves as the intermediate for the provision of microcredit for small businesses that are credit constrained and incapable to secure financial services from financial institutions (Seibel, 2000).

According to a World Bank survey, large firms have greater access to domestic and international bank loans and other financial services than small businesses. The growth of SMEs in the business environment in Liberia is threatened by the lack of credit from commercial banks as well as the low amount of Microfinance institutions (MFI). Currently in Liberia, there are eighteen MFIs all of which operate substantially in Montserrado County concentrating on over 72% of domestic enterprises in Liberia thus accommodating approximately four out of every five registered SMEs (Bruins, 2013; Building Markets, 2016). Another challenge that impedes SMEs growth in low income countries and emerging economies is owner's financial capability level, it is important for the growth of the enterprise when SME owners are financially literate. Low level of financial literacy poses a challenge for SMEs to attain credit and they are likely to have financial structure constraints and inaccurate financial management as well as poor financial decisions. Most SMEs owners show poor financial attitude and demonstrate low level of financial literacy, financial attitude affects the performance of SMEs Richard et al (2018). This research paper will focus on The Role of Microfinance Credit and financial capability in the Growth of SMEs: A Study of credit access in Montserrado County.

1.1.1. The Definition and Concept of Microfinance

Microfinance is a development instrument that grants financial services to poor and small businesses by providing very small loans and facilitating savings, micro insurance and other financial transaction to enable them expand their enterprises (Ledgerwood, 1999). It is mostly used in low income countries and emerging economies where SMEs do not have access to a variety of financial resources (Robinson, 1998). Other authors have perceived microfinance as the platform that has a developmental influence on the lives of individuals who are unable to obtain credit through standard banking channels and models.

There are numerous sources of microfinance (MF) services in the credit market, the most prominent are; nongovernmental organizations (NGOs), savings and loans associations, credit unions, commercial banks and other non-banking financial institutions. There is a varying target group for MFIs ranging from small farmers to entrepreneurs.

1.1.2. Economic importance of Microfinance in Liberia

Liberia is an emerging economy and still undeveloped with regards to the issue of MFIs as compare to other countries, by 2005 the microfinance sector in Liberia consisted of sixteen registered microfinance providers and twelve Rural Community Financial Institutions (GoL, 2009). The overall number of registered non-deposit taking microfinance institutions (NMFIs) is seventeen (17) with twenty-seven (27) branches in six (6) counties (CBL, 2019) as of 2019.

Microfinance has been at the core of Liberia's strategy for financial inclusion, the CBL (2009) strategy for financial inclusion emphasized the importance of Microfinance institutions in the provision of loans to small businesses which will enhance their growth and sustainability. Microfinance programs offer significant benefits for the disadvantaged because, unlike other poverty reduction methods and strategies, microfinance credits and funds are recycled and utilized concurrently (Wright (2000). The provision of microcredit in Liberia is the sole responsibility of the commercial banks, domestic credit unions and credit-centered institutions. There are also various informal village and community savings and loan associations such as Susu clubs and money lenders that operate mainly in rural and slum communities. Lack of access to finance in rural communities for the poor created a need and a platform for innovative approaches and alternatives to serve the financial needs of Liberia's rural poor. These informal institutions in the credit market play a significant part in enhancing accessibility to credit for SMEs owners and small scale farmers in most developing countries.

1.2. Statement Problem

Microcredit and financial capability are hypothesized as vital in the growth of SMEs, in Liberia especially Montserrado County, the county is the most populated county in Liberia and has significantly most of the informal activities functioning and is the host of all the banks and microfinance institutions as well as majority of the SMEs in Liberia. Microfinance institutions that provides microcredit has a positive effect on poverty reduction and the reduction in vulnerability on Montserrado County's impoverished people (Dorley, 2014) and Liberians at large who lack access to financial services from formal financial institutions. Accessing credit for SMEs is shallow and it threatens their growth and longevity (Mahn 2020). In Liberia's economy, SMEs play a critical role, SMEs performance eventually impacts the overall economic performance and poverty reduction efforts, as SMEs account for a substantial share of Liberia's economic activities (GoL, 2013; World Bank, 2018; Building Markets, 2016), yet most SMEs are struggling to thrive in the composite and challenging market environment in Liberia due to the lack of credit (Mahn, 2020). It is apparent that SMEs make up a significant portion of the private sector, with their growing role in economic growth and poverty alleviation as important characteristics of their existence and conceptual framework. However, SMEs face a major impediment in terms of access to credit, which arises primarily because of information asymmetries that exist in the credit market (Asiedu et al., 2013; Stiglitz & Weiss, 1981). The issue is relevant especially considering the fact that most financial institutions in Liberia perceive these SMEs as high-risk borrowers and are often reluctant to invest in them.

Another important point to note is that in the entire banking industry in Liberia, there is only one bank that is micro credit concentrated; Access Bank. Unfortunately, even when credit is considered and made available, SMEs are continuously uncomfortable with the credit terms and conditions and the high interest rate as well as the harsh repayment method that requires the borrower to start repayment immediately after disbursement. Secondly, when credit is secured by SMEs, there are internal concerns which hamper their ability to use the credit wisely in ensuring their business grows. SMEs lacking financial capability find it difficult to utilize the credit acquired and make sound financial decisions. In developing countries and emerging markets, strengthening the financial capabilities of SME decision makers and owners may significantly advance the growth and expansion of SMEs and stimulate long-term economic development (World Bank, 2018). Hence, the internal and external constraints faced by SMEs in Liberia suggest financial capabilities as well as access to credits are crucial components in ensuring growth and development of SMEs. Financial literacy training in the utilization of credit for SMEs owners and managers to make sound financial decisions is vital to the growth of SMEs.

Against this background of finding proficient solutions and making necessary recommendations to the above problems, this study therefore will seek to examine the Role of Microcredit and Financial Capability in the Growth of SMEs in Montserrado County.

1.3. Study Objectives

The primary objective of this study is to examine the effect of microcredit and financial capability on the growth of SMEs in Montserrado County, Liberia.

1.3.1. Other relevant objectives will comprise;

1. To determine the relationship between access to credit and SME growth.

2. To examine the relationship between financial capability of SME owners and growth of

SME.

3. To determine the level of microcredit access in the growth of SME in Montserrado county.

1.4. Research Question

The research seeks to answer the following questions:

1.4.1. Overall Question

How access to credit and financial capability of SMEs owners lead to growth of SMEs in Montserrado County?

1.4.2. Specific Question

What is the level of access to credit by SMEs?

What is the level of financial capability of SME?

What is the effect of access to credit and financial capability on the growth of SMEs?

1.5. Study Justification

SMEs are the pillar of the local private sector and act as a fertile ground for new entrepreneurs; Small and medium-sized enterprises are characterized as efficient, innovative job creators, the foundation of firms, and the driving force behind the country's economic engine (Abor & Quartey, 2010). The constraint factor of most SMEs in low income countries stem from lack of access to credit from formal financial institutions, specifically the bank and the lack of financial capability of most SMEs owners and managers to appropriately utilize funds and be knowledgeable of financial activities of the business. The choice of theory of firm growth was important because the application thereof shows the significance of managerial capability in enhancing growth and the financial capability theory is thoughtful because the presentation thereof posits that business owners due to the lack of financial knowledge make inaccurate, unproductive and inefficient financial decisions for their business (Joo and Grable, 2000). The researcher also identified the pragmatic significance of proposed solutions offered by microfinance institutions and how it affects SMEs' development by conducting this analysis. The aim of the analysis was to suggest potential methods for improving MFIs' effects on SMEs in terms of credit access and financial capability. The study seeks to submit potential methods for improving MFIs' effects on SMEs. There is limited literature on financial capability and Microcredit impact on the growth of SMEs in Liberia, despite the substantial presence of the informal sector, this study will provide literature on the role of Microcredit and Financial Capability in the context of growth of SMEs in Montserrado County.

1.6 Study Limitation

The research encountered several limitations; the study was constricted to only Montserrado County. Application of recommendation should consider the geographical constrain of the research. The interviews were conducted during business operation hours which prolonged most interviews because respondents were multitasking; it was time consuming for research assistants. Some respondents were cautious when asked about asset and profit level and were mostly reluctant in answering the questions. The other constraint was the use of the Survey to go app during the interview, there were instances of gadget malfunctions which delay some interviews and some interviews were canceled as well.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents both the theoretical and empirical literature. The first section presents a theoretical framework which is based on the Resource Based Theory of Firm Growth that examines managerial capability as key to SME growth and the Financial Capability theory that examines the financial discipline and financial knowledge that enhances growth through sound financial decisions by owners and managers of SMEs. The empirical assessment looks at the characteristics of SMEs and their constraints and what other studies show about the relationship between microfinance credit and the growth of SMEs.

This study adopts a theoretical model that examines the relationship between SME growth and access to credit and financial capability. Access to credit is viewed as an essential feature in the growth and development of SMEs, against the backdrop the relevance of microcredit to SMEs cannot be overemphasized. The primary goal of microcredit is to increase revenue and develop financial markets by giving credit to small businesses that would otherwise be unable to access capital markets. (Makorere R, 2014).

2.2. Theoretical Framework

The theoretical basis of this study was carried within the theoretical framework of the Resource Based Theory of Firm Growth, Credit Access theory and the Financial Capability theory. The Resource Based Theory of Firm Growth and Financial Capability theory are expedient to the study because it explains at both fronts the factors responsible for growth, the Resource Base Growth of the firm theory explains firm owner managerial capability that impact growth while examining external factors that impede growth and the Financial Capability theory explains the benefits of financial capability and how firm owners can use financial knowledge to influence growth.

2.2.1. Resource Based Theory of Firm Growth

The various and diverse definitions of a firm makes it complex to assess its growth (Correa, 1999). The Resource Based theory of firm growth offers an important perspective on the firm characteristics and managerial capabilities that shape and influence the performance of the firm by providing an opportunity for firms to develop a competitive advantage. It explains how firms combine resources to create growth. Edith T. Penrose contributed significantly to the resource base theory; she postulated the growth of the firm in which she connected enterprise growth to the internal activities and capabilities of the firm (Penrose, 1959). Penrose defined a firm as the organization of resources operating with authority and management, producing goods and services in the market to maximize growth. Many theories assume profit as the primary objective of the firm which is necessary but insufficient. Profits, according to Penrose, are an essential condition for development or growth, generally, financial and investment options of businesses are dictated by a goal to maximize overall long run profits" (1959, p. 29). Penrose also considered growth maximization as the primary goal of the manager, this suffice that firm increases the employment of managerial staff at a rate that maximizes growth and with growth, the complexities of the organization increase, thus demanding higher managerial services. The theory hypothesizes that the firm's managerial capabilities dictate its supremacy and enhance its comparative advantage over rival firms and the market. The major problem and misperception with most economic theories of the firm, according to Penrose, was that they could not identify the drivers and constraints to the firm's growth (Penrose, 1959). Penrose explains that unless markets are restricted in regards to product kinds and output quantities, the possibilities for expansion are driven by the flexibility and versatility of the firm's resources. She reasoned that the firm's growth could be examined as an effective management process that involves both internal and external resources (Penrose, 1959).

The theory of firm growth is predicated on the concept that businesses are varied and so they have different levels of growth. Considering business growth is diverse, it's essential to recognize the internal and external factors that impact market performance. Age, size, and market penetration are all characteristics that contribute to firm heterogeneity. Furthermore, a firm's growth is influenced by a variety of experiences, managerial abilities, and educational levels. According to Penrose, firms profitability is unaffected by its size and is only determined by its growth rate, which is determined by its resources efficiency. Penrose (1995) goes on to show variation in terms of both tangible and intangible resources, such as financial resources and management competence. Storey (1994) classifies the components into three categories: owner characteristics, firm characteristics, and firm growth strategies.

There have been numerous attempts by scholars to analyze and measure the growth of the firm. Ardishvili et al (1998) as cited by Carrizosa (2007) concluded on several firm growth indicators as a means to analyze firm growth which were: the number of employees, the value of production, the sales revenue etc. One of the key takeaways from this study in analyzing the growth of a firm is the number of employees due to its relevance in the context of SMEs growth. The basis of measuring firm growth by the number of employees or change in the number of employees is important in the framework of SMEs, this measurement indicator in the context of understanding SMEs growth is strongly correlated (Pasanen, 2003). Kimberley (1976) postulated that the most important way to measure a firm's growth is the number of employees, Kirchhoff and Norton (1992) examined three measurements namely: employment, assets and sale. Although the measurement indicator of number employees has been questioned by previous studies, for instance Hart (2000) had an opposing view on the measurement of firm growth by the number of employees; he argued that using number of employees only is irrelevant since sizes are highly correlated.

According to one critique of the theory, the premise that a firm may be profitable in a highly competitive market provided it can leverage advantageous resources is not always accurate. External factors that influence the industry as a whole are disregarded. The theory ignored the influence of external factors such as external financing costs, government restrictions, the location of the enterprise, and economic crises on company growth. The theory asserts that a firm's growth is only driven by its internal characteristics. Both external and internal factors have been demonstrated to have an influence on firm growth in various researches. When there are considerable constraints stemming from a lack of access to financing impeding the growth of the SMEs sector, it is virtually impossible to ensure growth. The external factors are important but this study will focus substantially on the internal factors.

A World Bank study conducted by Keun Lee (2009) employing the theory of firm growth confirms that the growth of firms in emerging markets and low income countries is driven not just by firm level of resources, but also by competitive strategies.. The study focuses not only on the firm's internal resources, but also on the application of external development resources through networking and integration with other firms. The consideration of external factors in examining firm growth is key, although managerial capability which has been the foundation of the theory of firm growth is a crucial variable in influencing the overall growth of the firm, the external environment in which the firm operates dictates to its success or failure. There have been many studies dedicated to examining specific external factors as conditionality in influencing firm growth.

In Liberia, there are numerous external factors responsible for the growth of firms, these external factors are unique and it is borne out of government inability and failure to provide basic services. While SMEs in many low income countries lack access to credit and it can be viewed as a primary source that hampers SMEs growth in these countries, the case of Liberia provides many other external factors that can explain firm growth. A center for Global development working paper conducted by Gorlorwulu (2011) found other external factors such as bad road condition, lack of publicly supplied electricity and other basic public services as major risk factors to business profitability and success. The International Financial Corporation (IFC) conducted a research on the barrier to enterprise formalization in Liberia and found out that most SMEs in Liberia success and growth is heavily linked to external factors that influence their growth ranging from macroeconomics instability, cost of transportation electricity access and access to credit. A world bank Enterprise Survey on Liberia (2017) which focuses on the many aspects of the business environment especially for SMEs found that small businesses face numerous impediments from the external environment that hampers their growth and sustainability. The study tunneled deeper into unique external factors such as corruption, crime, permit and taxes but most importantly among SMEs was access to finance. The survey found a number of ten business obstacles that impede growth, access to finance was a major obstacle for SMEs operating in Liberia followed by lack of access to stable and efficient electricity for small businesses and tax rates for medium enterprises.

A paramount indicator of firm growth can be ascribed to access to financial services which can be examined from an internal factor milieu. The growth of SMEs is dependent on several indicators which can be enhanced by access to finance, most SMEs growth is hampered by the lack of credit which is a key component to ensure longevity. A study by Goedhuys (2002) in the Ivory Coast linked firm growth to factors such as access to market but importantly access to financial services. Credit access is strongly linked to SME growth, which is relevant to the firm's overall survival and sustainability (Barringer et al, 2005).

2.2.2. Access to Credit Theory

Access to credit has proven substantially as an effective indicator for SME growth, the lack of credit presents a constraint in acquiring capital, one of the paramount financial intermediaries that have assisted SMEs are the Microfinance Institutions. Because they offer underprivileged individual and struggling enterprises with long-term access to credit, MFIs that are financially viable and have a large accessibility and capacity have a significant positive effect on SME growth (Rhyne and Otero, 1992). Assistance from MFI is crucial in ensuring SMEs growth, in many cases credit from microfinance has been a primary source of capital for SMEs growth, this is because most commercial banks find it risky to lend to SMEs. Since traditional financial institutions view SMEs as high-risk and financially unviable, only a small number of SMEs are able to attain financing from these institutions (Raphael, 2012). Access to credit is a major financing underpinning in SME growth, yet, there are impediments SMEs face in accessing finance. SMEs are hampered by a lack of finance, which inhibits their growth and long-term stability (Cook, 2009). Tagoe (2005) carried out a study that examined the challenges SMEs in Ghana have in obtaining finance clearance, study findings show there were high demands for collateral among financial institutions coupled with the high processing fees and prepayment charges.

In developing countries, access to credit remains a hindrance to the growth of SMEs although SMEs account for a high rate of employment. In Kenya for instance, SMEs contribute approximately 40 percent to the GDP and it employs over half of the country's workforce, Korir (2008). Inadequate access to finance as a result of poor financial structure to make available financial service to SME remains a hindrance in the growth and expansion of MEs in developing countries. The lack of credit access as shown in many studies is the primary constraint to SME growth, about 70% of SME in Cameroon lack adequate financing, inhibiting their capacity to expand technologically and upgrade their business (World Bank, 2015). A study in Vihiga revealed a total absence of connection between small business owners and traditional or formal credit institutions such as commercial banks, nonbank financial institutions and co-operatives (Alila 1998). In Liberia, access to credit for SME is low, thus impeding their performance and contribution to the economy (Gorlorwulu, 2011). In South Africa, there is a weak informal sector; the prospect of SMEs is shallow. A study conducted by Chiliga & Robert Lombard (2012) concluded that SMEs are more likely to cease operation before the fifth year. Numerous business owners in South Africa regard access to credit to be a significant hurdle to business operations (Turner, 2008). In most Sub-Saharan countries, access to credit permits small businesses to make productive and profitable investments and contribute to the growth of the economy and poverty alleviation (Beck and Demirguc-Kunt, 2006).

There is limited literature on credit access by SMEs in Liberia. In summary this study looks at access to credit by SME which impedes performance and growth and provides sufficient analysis on financial characteristics that influence access to credit.

2.2.3. Financial Capability Theory

This section defines financial capability and outlines the importance of this theory to the growth of SMEs in this study.

A broader capability approach was developed by Amartya Sen. Sen asserted that someone could be deficient in financial resources, knowledge on how to use them, or access to appropriate financial services, as well as incentive to act. (Sen, 1998), to put more succinctly, the lack of financial knowledge is an alarming concern for capability development as well the ability to act or utilize financial services. Financial capability encompasses more than just financial knowledge; it also evaluates whether you have the will to act, the confidence to do so, and the ability to use financial services effectively and efficiently. Instead of focusing on just one function, the capability approach emphasizes the ability to execute and attain all of the functions that someone values (Sen, 2009).

Financial Capability is an important concept in this study because it explains the significant role of financial knowledge in the success of SMEs. Financial capability is progressively evolving as a principal concern for policy makers as it promotes financial inclusion, financial stability and effective financial market (World Bank, 2018). The importance of financial capability has been acknowledged by G20 leaders, who have adopted the OECD worldwide network on financial education, setting the stage for the formulation and implementation of a national financial education policy and strategy. (World Bank, 2017)

As crucial as financial capability is to SMEs growth, many studies have not concentrated on the financial capability of SMEs. Most of literature on financial capability as well as empirical studies has focused on household, individual and microenterprises while heavily overlooking SMEs (Kempson et al, 2013). SMEs in developing countries are crucial to development because of their role in providing employment to large strata of the population in the informal sector. A vibrant SME sector can enhance development at many facets of the economy and assist in the achievement of a country's overall development agenda. A World Bank definition which states the internal capacity to act in one's best interest given socioeconomic and environmental conditions applies significantly to individual level and does not reflect the basis of SMEs financial capability. SMEs management entails an effective financial knowledge separate from individual financial capability which is an important variable in the growth and success of SME, the lack of financial knowledge and specific managerial skills has the proclivity to hinder the growth of SMEs (Investigating the Financial Capabilities of SMEs, 2018)

Financial capability is described as a set of attitudes, knowledge, and skills needed to conduct money management and make decisions that are most appropriate for one's condition in a supportive environment that includes, but is not limited to access to adequate financial services (Stuart, 2013). The lack of financial knowledge is a major impediment to growth of SMEs in developing countries. The skills and knowledge to adequately manage finance is vital to growth, it is almost impossible for SMEs to thrive in the absence of financial capability. Financial knowledge and financial inclusion are essential to enhancing financial capability (Sherraden, 2013). HM Treasury (2007) defines financial capability as people's knowledge and abilities to analyze their own financial positions, as well as their desire to act on it (McQuaid & Egdell, 2010).

Financial capability is an important concept and borders on the ability of owners of SMEs to manage their finances properly, given the availability and effectiveness of financial knowledge. There is a growing interest in increasing financial capacity level in most development interventions to allow individuals, households and businesses to be adequately equipped and knowledgeable about financial matters. A World Bank study on investigating the financial capabilities of SMEs (2018) postulated the importance of financial capabilities to SMEs. It states the need of SMEs to adopt financial capabilities that are needed in order to manage their business finances that will ensure growth and sustainability. Financial capability can be considered one of the key factors of performance for SMEs; it strengthens and facilitates successful financial decision-making for businesses. Most SMEs in Liberia cited lack of access to finance as top obstacles to business growth (World Bank Enterprise Survey, 2017) but with the lack of financial capability SMEs acquiring credit may still fail because of poor financial decisions. The lack of financial knowledge and ability to make thorough financial assessments is the reason most SMEs credit worthiness resulting from inability to pay back loans are low.

Financial capability, according to Arnold & Rhyne (2016), is regarded as the mix of skill, attitude, knowledge and behavior that a person need to make effective financial decisions that support well-being. As part of the Financial Inclusion (2020) initiative, CFI integrated this definition of financial capability for the first time in its financial capability framework. The report hypothesized lack of consumer financial capabilities, can result to inactive accounts, over-indebtedness, and other major issues. This further explains the importance of financial capability in enhancing growth of SMEs as well as well-being which can be achieved through better management of resources, in addition to a greater or more effective use of financial services. Financial capacity interventions, according to the authors, are those that are developed with the explicit purpose of leading from intervention to behavioral change. Moreover, they noted in their report "A Change in Behavior Innovations in Financial Capability" that financial capability includes the ability to apply those behaviors to financial decisions.

The World Bank looks at financial capability as the aptitude to a person's financial interest that is best for them, considering their environmental and socioeconomic circumstances (World Bank, 2013). It further explains this theory looking at the characteristics that make a person to be financially capable as those that are expected to translate into increased welfare. Financial capability, according to Zollmann and Collins (2010), is regarded as an individual ability to "make financial decisions and judgments that contribute to his or her current and long-term financial stability". Zollmann & Collins 2010 report argued that capability has the propensity to assume a critical role in deepening formal financial inclusion; ensuring markets are stable and generally increasing efficiency, by achieving this, welfare outcomes are also achieved. They postulated that a financially capable person would have home, care, and life insurance to deal with risks in their 2009 paper "Financial Capability in Kenya." In a situation where customers face a broad list of concurrent vulnerabilities but few insurance products with which to mitigate them, a financially capable individual would be characterized as having a clear, self-defined strategy to manage their vulnerabilities, supported by sufficient saving and borrowing resources.

Financial literacy is one of the most critical aspects of financial capability; it is a key concept in financial capability. Financial Literacy is defined as an operative approach to preparing people to manage their finances (Jones, 2008). Financial literacy refers to the knowledge, skills and the correct attitude desired to enable a person to be in a position to make sound financial decisions (Sherraden, 2013). Financial literacy as define by the Organization for Economic Cooperation and Development (OECD) include not only "knowledge and understanding of financial concepts and risks, but also the skills, motivation, and confidence to apply that knowledge and understanding to make effective decisions in a variety of financial situations, to improve individuals' and society's financial well-being, and to facilitate participation in economic life" (OECD, 2013). Financial literacy is referred as the capacity to recognize and make intelligent financial management decisions (Gavigan, 2010).

Inadequate knowledge, skills, attitude, and understanding of how to handle and steer a firm's finances in a robust, transparent, and comprehensive manner is a major hindrance to sustainable SMEs growth. According to Joo and Grable (2000), due to a lack of financial understanding, the limited time available to learn about personal financial management, the intricacies of financial transactions, and the large range of financial products/services, business people make ineffective financial decisions.

Financial literacy is essential for SMEs owners and managers in transitioning from small and medium enterprises to large enterprises. According to a study by Financial Sector Deepening 2009, SME financing capability is a critical component in improving SME finance. According to the study, several MFIs are engaging to improve the capabilities of SMEs through financial literacy training. This will further ensure better financial management as well as enable informed and sound financial decisions from SME owners.

In summary, this study looks at aspects of financial capability theory which focus on financial literacy and how it influences basic financial knowledge to make sound financial decisions for SMEs.

2.3 Empirical Literature Review

This section provides an ample analysis of the subject by underlining the findings of various authors in their research; it offers a review of empirical studies on the concepts used in this study. This section will give a review of what other authors have said about SMEs access to credit and the impact of microfinance on SMEs growth as well as financial capability looking at its important component, financial literacy and how it lead to growth of SMEs; moreover, the section will offer empirical evidence on firm growth and its constraints.

2.3.1 Firm Growth

There are various firm growth studies that have engaged different approaches to measure the growth of firms. Most empirical literature focuses on number of employees, turnover, size, external financing constraint etc. to provide discernment on the growth of a firm. Deminguc and Maksmovic (1998) studied whether distinct financial, legal, and corruption concerns that companies describe as impediments significantly impact their growth rates using a unique firm-level survey database comprising fifty-four countries. The findings show that the factors that constrain a company's growth are mostly defined by its size, and the smallest businesses are often the ones who suffer the most from all of these restraints. Firm growth is also hampered by an underdeveloped financial and legal system. Against this backdrop, strong policy in enhancing firm growth especially in the development of SMEs is paramount.

Carrizosa (2006) employs a stochastic growth theory to investigate the extent to which company size influence firm growth and behavior in the Spanish manufacturing and service industries between 1994 and 2002. The findings of this research refute the Gilbrat's law proposition on manufacturing and service industries, in its empirical review it is considered a delicate system influenced by internal and external characteristics that may be due to deterministic or random factors. The study's findings reveal that there is a considerable variation in growth between manufacturing and service sector firms, which exists when firm-specific variables are taken into account.

Zhou and De Wit (2009) studied the determinants and dimensions of enterprise growth using firm-level data from 523 Dutch SMEs and a multivariate linear regression model. The growth in sales as well as employment, as the study stated, were the most widely used indicators of firm growth and both reflected changes within the firm, either short-term or long-term and were much easier obtained. The research concluded that while environmental factors have no bearing on firm growth, individual factors do: entrepreneurs with developmental determination and technical expertise are more likely to expand their businesses, whereas entrepreneurs with a strong need for accomplishments are less likely to do so. Hall (1986) used panel data on publicly listed manufacturing firms to analyze dynamic firm growth in the US manufacturing sector. The study covered roughly 1800 firms. For smaller businesses, the research found an inverse relation between size and growth. Another study carried out by Mambula (2019) investigated the features that determined the growth of SMEs as well as their performance and development in Nigeria also making necessary policy reccomendation. The study looked at 32 firms using a mixed method or multiple method strategy to reduce the possibility of personal bias. The study found that lack of financing as a growth constraint and recommended that reform of the sector is crucial in SME development and growth as per government assistance.

Bartlett and Bukvic (2001) conducted a research intended to determine the critical impediments of SMEs growth and development in Slovenia. The study utilizes an econometric analysis of the source of firm growth and it was based on a sample survey of small businesses in Slovenia. The study identified fundamental constraints to firm growth, such as bureaucracy, and external financial constraints, such as high capital costs, were inversely correlated to firm size, and that the existence of institutional and financial barriers hampered growth.

Regasa, Fielding, and Roberts (2017) identified evidence of a negative relationship between the use of external financing and firm growth in Ethiopian firms, divergent to earlier research of firms in low-income countries, suggesting that the finance-growth nexus has substantial cross-country heterogeneity. The outcomes of this study revealed a positive relationship between internal finance and growth, implying that firms with access to external finance develop more slowly. In another study conducted by Hashi and Krasiniqi (2011) covering six different countries namely: Czech Republic, Albania, Macedonia, and Serbia & Montenegro, they tested a number of hypotheses regarding the variables that affect SMEs' growth using data from the World Bank's Business Environment and Enterprise Performance Surveys from 2002 and 2005. The objective of this research was to investigate how technical capabilities and environmental factors affect SMEs' growth in these countries. The research found that although the rapid importance of SMEs, institutional barriers are preventing them from making a significant impact and growth.

Table 2.1: Summary of the Empirical work on Firm Growth

Author	Methodology & Study Location	Objective of the study	Findings on Firm Growth
Demirguc &	Firm-level survey	To investigate	External barriers on

Maksimvic (1998)	data base done in 50 countries worldwide	constraint such as legal, financial and corruption affects firm growth	firm growth are proportional to the size of the firm.
			Theme on firm growth is underdeveloped financial and legal system affects firm growth
Comment: The study focused significantly on legal framework to examine firm growth and further pay too much attention on firm size to show growth rate given external constraint and not firm access to external credit and managerial capability.			
Carrizosa (2007)	A qualitative and quantitative study carried out in Spain	Examine to what extend the firm size influence on firm growth	Shows a considerable growth disparity between manufacturing and service sector firms.
			The theme on firm growth focuses on firm size significantly as well as internal and external characteristics of firm
Comment: The study focused on firm size which proved difficult to compare firms from across different sectors given the characteristics of firms operating in different sectors, this study will focus on SMEs significantly in the service sector.			
Zhou & De Wit	Firm level survey data	To study the	Shows that

(2009)	in Netherland	determinant & dimension of enterprise growth	environmental determinants do not affect firm growth
			Key theme of firm growth stem from individual determinant on personal trait that enhance growth
The study indicated firm growth is affected by individual determinants while ignoring the importance of other external factors from the environment that affects firm growth. This study will show how the financial market regarding access to credit affects the growth of SMEs.			
Author	**Methodology & Study Location**	**Objective of the study**	**Findings on Firm Growth**
Mambula (2019)	Mixed method or multiple method in Nigeria	Investigate the factors that affect SMEs' growth, performance, and development.	Lack of financing as a growth constraint
			Theme: key indicator of firm growth in the study is lack of government policy to support SMEs, financing constraint.
Comment: The study focuses on lack of finance and government intervention which is necessary but insufficient in the growth of SMEs, this study will also include lack of financial and managerial capability as a determinant for growth.			

Barlett & Bukvic (2001)	Sample survey done in Slovenia	Identifying the critical barriers to SME growth and development	Firm growth was negatively link to firm size
			Theme: the study on firm growth has to do with various barriers financial barriers affecting growth, high cost of capital, bank bureaucratic procedure among others.
Comment: The study focuses significantly on external barrier to SME by limiting itself to financial barrier and focus too little on internal barrier such as managerial capability.			
Regasa et al (2017)	Firm level data in Ethiopia	Investigate how various form of financial method affect the rate of firm growth	The research revealed a relationship between the usage of external financing and business growth that is negative.
			Theme: Key indicators of firm growth stem from internal financing
Comment: The study generalized internal financing strength in developed countries to make an analysis of low income countries firms with low capital. This study will examine the influence of external financing on firm growth.			

Author	Methodology & Study Location	Objective of the study	Findings on Firm Growth
Hashi et al (2011)	Business Environment and Enterprise Performance survey in six countries	To analyze the effects of a firm's technological capabilities and environmental factors on SMEs growth.	The study found that institutional barriers are preventing SME growth
			Key theme in the study include innovative activity, networking and technological innovation
Comment: The study focuses on institutional barriers as constraint to SME growth is significantly focused on the legal framework of the region rather the financial structure.			

Source: (Author's Conceptualization)

Hence, to summarize the studies reviewed, the foremost outstanding themes of firm growth this study will adopt include aspects of internal and external sources of financing, external factors and internal barriers to SME growth, for instance low capital and managerial capability.

2.3.2. Financial Capability

One of the most imperative concepts of financial capability in understanding the growth of SME is financial literacy, it is important in enhancing growth and development of SMEs. Financial literacy of SME managers and owners is crucial in ensuring SME growth. Financial literacy has been shown to have a significant impact on the performance of small enterprises (Tuffour et al, 2020). SME financial capability is an important factor in their growth (FSD, 2009). The challenge of financial management faced by SMEs globally is substantially connected to the financial capacity and knowledge of their managers to create business decisions that are well-informed and effective. Financial literacy is described as the confluence of responsiveness, information and skills required to make intelligent financial choices and attain personal financial safety (World Bank, 2012). The applicability of financial literacy among SME owners in guaranteeing the long-term viability of their businesses has been underlined, particularly in dealing with current and projected challenges (Ankunda, 2010).

Ripain and et al (2017) investigated the level of financial literacy among respondents in a Malaysian entrepreneur development program. The study used a quantitative approach, including a questionnaire survey and interviews, and found that SMEs' participants, particularly those chosen to be nurtured as new entrepreneurs, had a shockingly low level of financial literacy. Financial literacy education should commence as soon to fortify entrepreneurs with the capacity to make informed financial choices and pursue business opportunities that make sense, according to the paper, which cited a lack of financial literacy as the reason for many struggling new entrepreneurs and businesses. Njoroge R (2013) conducted research to analyze the correlation between the success of SMEs and financial literacy. The research used a quantitative approach and seventy nine entrepreneurs were randomly interviewed in Nairobi County. SME managers with a high level of financial knowledge showed great success in their business; financial literacy was a significant competency for highly successful entrepreneurs who demonstrated a thorough understanding of financial matters. The findings identified a positive correlation between financial literacy and entrepreneur success, showing that financial literacy is essential for SMEs success.

Jianmu & Kulathunga (2019) conducted a research in Sri Lanka to evaluate the impact of financial literacy, access to finance, and risk attitude on the long-term viability of SMEs. The paper uncovered a number of intriguing findings. There were two hundred ninety one CFOs of SMEs in Sri Lanka in the research sample. The output structural equation modeling that was used in the study indicated that financial literacy has a direct positive effect on the long-term survivability of SMEs. It was revealed that financial literacy was a determinant of access to credit and financial risk attitude of SMEs. A research conducted by Chepngetich (2016) with the aim of determining the correlation between financial literacy and the performance of SMEs in Uasin Gishu County, Kenya. A cluster and random sampling technique was used to select a sample size of 290 SME, the finding of the study went in depth to specific financial literacy and knowledge that SMEs owners should possess. This showed that financial knowledge and budgeting had a substantial impact on SME success. SME owners should focus on training to improve their competencies in interest rate and budget computation since they make budgetary decisions, according to the research. Budgeting is an essential segment that enhances sound financial planning, it is a significant component of financial literacy that provides a proper outlook of SMEs finances as well as financial position of the business. It helps SME owners to make financial decisions as per revenue and expenses the business incur.

Another study conducted by Wagoki et al (2013) to assess the influence of the financial literacy education on performance of SME in Njoro district. The study objective was to establish how bookkeeping skills influence the performance of SMEs and to establish how budgeting skill affects performance. A descriptive survey design was used during the study, the study found out that financial literacy programs emphasize budgeting, financial analysis, credit management as key indicators for performance, and it shows there was a significant improvement in the revenue performance of SME owners who had attended financial literacy training or obtained financial knowledge. Nekesa (2016) conducted a research with many but key financial literacy objectives in context; the main goals of the study were to look at the effects of debt management literacy on MSE growth, budgeting skills on MSE development, banking literacy on MSE growth, and accounting literacy on MSE growth in Kakamega Central Sub County. There were some interesting finding from this study, the study revealed that despite having a reasonable understanding of debt management, the majority of MSE managers did not understand the impact of inflation and interest rates on the loans they lent, nor did they make comparisons when it comes to terms and conditions when purchasing financial products that could influence their financial decisions on where, how much, and from whom to borrow, resulting in sub-optimal business efficiency. The findings also revealed that most MSE owners and managers have a limited understanding of budgeting and bookkeeping, as they do not engage in formalized financial planning, budgeting, and control, and do not keep proper account books or financial statements, all of which contribute to information opacity and may preclude or constrain their access to finance.

Cadiya et al. (2017) study the importance of financial literacy in the link between loan access and SME growth in emerging economies and developing nations. The study looks at financial literacy as a key variable in SME growth and it investigate if financial literacy in a developing economy influences the relationship between access to credit and the growth of SMEs. According to the research, financial literacy has a positive and significant moderating effect on the linkage between access to credit and the growth of SMEs in developing economies. Furthermore, in emerging economies, financial literacy and access to credit have a substantial and significant impact on SMEs' growth. Tuffour et al. (2020) investigated the influence of financial literacy on the performance of small-scale firms in Ghana's La Nkwantanang Madina Municipality using primary data collected from 200 small-scale managers using structured questionnaires. The research established a significant effect of financial literacy on firm performance. Financial literacy (awareness, attitude, and knowledge) had a significant positive impact on both financial and non-financial outcomes, according to the study. Individual characteristics such as age, education, and work experience, on the other hand, have no bearing on financial performance. Capacity building program was recommended by the study to help increase the financial literacy level of SME managers.

Table 2.2: Summary of the Empirical work on Financial Capability

Author	**Methodology & Study Location**	**Objective of the study**	**Findings on Financial Capability**
Ripain et al (2017)	Quantitative method in Malaysia	The goal of this study was to observe the level of financial literacy among participants in an entrepreneur development program.	The major reason for new entrepreneurs and enterprises struggle is a lack of financial literacy.
			Key theme on financial capability

			include financial management, highlighting the importance of financial literacy
Comment: Financial literacy program in this study was facilitated through government policy to ensure SMEs managers are financially literate. The study however did not evaluate the sustainability of the program carried out. This study shall seek to provide comprehensive recommendation to the Liberian government for the training of SME managers on financial management			
Njoroge (2013)	Quantitative approach in Kenya	To examine the linkage between financial literacy and the success of SMEs.	The findings reveal a positive correlation between financial literacy and entrepreneurship success.
			Key theme from the study is financial knowledge increases SMEs chances to success
Comment: The study showed high level of financial literacy in formal sector where it substantially focused overlooking financial literacy level of SMEs in the informal sector, this study will seek to examine financial literacy level significantly in the informal sector to ascertain financial knowledge in the informal sector.			
Jianmu (2019)	Questionnaire survey conducted in Sri Lanka	To examine the impact of financial literacy on SME	Financial literacy was a determinant of access to credit and

		sustainability	financial risk attitude of SME
			The key theme adopted from the study is the intervention of financial literacy is essential to financial risk attitude of SME manager
Comment: The study did not show the linkage between financial literacy and access to credit rather it stated access to credit as a mediator of sustainability not including managerial capability			
Author	**Methodology & Study Location**	**Objective of the study**	**Findings on Financial Capability**
Chepngetich (2016)	Questionnaire survey conducted in Kenya	To determine the correlation between financial literacy and SME performance	Significant effect of financial literacy on SME performance
			Key theme from the study include budgeting and training
Comment: the study basic concept of calculating interest rate in the context of financial literacy is insufficient in examining financial literacy impact on sustainability, this study will seek to adopt more in-depth concept like saving management impact on sustainability			
Wagoki et al (2013)	Descriptive cross sectional survey in	To establish how bookkeeping skills	The finding indicated that financial literacy

	Kenya	influence the performance of SME	programs are key indicator for SME performance
			Key theme adopted from the study include training and credit management skills
The study was conducted from a training funded by an entity; the model is unique as it ensures results based on performance of SME managers who attended the training. This study shall seek to provide recommendation for training of SME owners in Montserrado county			

Author	**Methodology & Study Location**	**Objective of the study**	**Findings on Financial Capability**
Nekesa (2016)	Descriptive cross sectional survey in Kenya	To establish whether there's a linkage between financial literacy and SME growth.	It indicates a positive correlation between the growth of an enterprise and financial knowledge.
			Key theme adopted from the study is debt management and budgeting
Comment: The study focus substantially on debt literacy and not sufficiently on saving and investment knowledge of SME owners			
Tuffour et al (2020)	Quantitative approach	To investigate the	Financial literacy has

	in Ghana	impact of managers' financial literacy on SME performance.	a significant impact on business performance.
			The key themes were financial performance, knowledge and attitude
Comment: The study does not show how knowledge component has positive effect on financial and non-financial performance of firms			

Source: (Author's Conceptualization)

To summarize the empirical work, the main indicators of financial knowledge this study will adopt include components of financial knowledge (attitude, knowledge). The study will also adopt training of SME managers to have a wider scope of other financial literacy components such as saving and investment knowledge and other financial services to enhance better financial decisions.

2.3.3. Credit Access

The lack of Credit access has been the foremost challenge and hurdle for SMEs in developing countries hampering their growth and development. Microfinance institution providing credit to SMEs has been very instrumental in their growth, number of empirical studies have established microfinance influence on access to credit to enhance growth of SMEs as well as credit constraints faced by SMEs. In Nigeria, Idowu (2004) investigated the impact of microfinance on small and medium enterprises. The 100 SMEs that made up the study's sample size were chosen using a simple random selection technique. Despite the fact that only a few SMEs were able to get the necessary capital, the findings of the study reveal that MFI loans benefited a vast number of SMEs.

Using survey and econometric methodologies, Ahiawodzi (2012) investigated the impact of access to credit on the financial performance of SMEs in the Ho Municipality of Ghana's Volta Region. A total of 78 SMEs in the manufacturing sector from the Ho Municipality were surveyed. The results of both the survey and the econometric analysis 21 reveal that access to credit has a considerable beneficial impact on the financial performance of SMEs in Ghana's Ho-Municipality.

Fawowe (2017) examined the impact of access to financing on business growth in African nations, utilizing data from 10,888 enterprises in 38 African countries and estimating two models using two independent measures of firm access to credit, both objective and subjective. Inadequate funding, according to the report, significantly constrained firm productivity level. This was apparent from the estimation that revealed a substantial negative impact on firm growth from access to finance constraints.

Rahman et al. (2016) conducted research into Malaysia's current SME difficulties. Numerous results on SMEs' constraints, such as inefficiency and financing availability, inspired the study. The major challenges for Malaysian SMEs, according to the survey, are credit access, managerial skills, and marketing. In a study by Kira A (2013) to determine the nature of the financial constraints that East African firms face in their operations and to develop a depiction of East African firms facing financial constraints. To acquire a comprehensive knowledge of how East African enterprises evaluated their access to external funding to engage in various business prospects, the study analyzes survey data from the World Bank Business Enterprises Survey to establish how East African firms confront access to finance problems. Financial constraints were found to be more pervasive among enterprises than country-wise, according to the study, to put more succinctly, the findings showed that financing constraints in East African firms are largely based across firms affecting small and medium enterprises the most. Chauke et al. (2013) investigated factors affecting smallholder farmers' access to credit in the Capricorn District Municipality of Limpopo Province, South Africa. A stratified sampling strategy was utilized to choose 250 smallholder farmers for the study. Extension services are crucial in providing farmers with farming practices, information, and management skills, according to the report. The study also discovered that the need for credit, one's attitude toward risk, the distance between lender and borrower, one's view of loan repayment, one's assessment of lending processes, and one's overall asset value all played a significant role in credit access. In another study, Binks et al. (1996) analyzed data from a survey of over 6,000 firms to investigate the extent to which growth enterprises are harmed by loan constraints. The results imply that growth firms have no larger financing constraints, although growth firms may still face credit constraints due to their youth and inexperience.

Table 2.3: Summary of the Empirical work on Credit access

Author	**Methodology & Study Location**	**Objective of the study**	**Findings on Credit Access**
Idowu (2004)	Survey method in Nigeria	To study the impact of Microfinance on SME	MFIs and SMEs have a significant and positive correlation.
			Key theme of the study is loan, alternative source of financing and credit access
Comment: the study did show substantially the impact of loan on SMEs			
Ahiawodzi (2012)	Survey and econometric method in Ghana	The effect of access to credit on financial performance of SMEs	Credit access exerted significantly a positive effect on SMEs financial performance.
			Key theme include credit accessibility
Comment: the study focused on SME specifically in the manufacturing sector, this study will provide a wider scope of analysis to other sectors significantly the service sector			
Fawowe (2017)	Survey method conducted in Africa	Investigate the effect of access to finance on the growth of firm	Shows firms that are not credit constrained realize faster growth

			than firm that are credit constraint
Comment: the study provide an indicator of firm growth substantially on access to finance which is necessary but insufficient given other important indicators such as managerial and financial capability that is important for growth			
Kira (2013)	World Bank Business Enterprise survey in East Africa	To evaluate the determinant of financing hurdles of firms	Financial constraint are broadly base across firm but SME are mostly affected
			Theme from the study include financing constraint and external financing access
Comment: the study focused on firm size as a determinant of financing constraint, this study will look at other factors that contribute to the lack of access to finance			
Chauke et al (2013)	Quantitative and Qualitative method in south Africa	To determine the factors that influence small-scale farmers' access to credit.	Shows that the need for credit, attitude towards risk and distance between borrower and lender were major factors contributing to credit access
			Key theme adopted from the study is risk
Comment: the study focused on small scale holder which factor that affects credit access consist of characteristics that do not reflect the wider scope of other small businesses in different sector			
Binks et al (1996)	Survey conducted in the UK	To determine the extent to which credit constraints impact the	Growth firms have no larger financing constraints, although

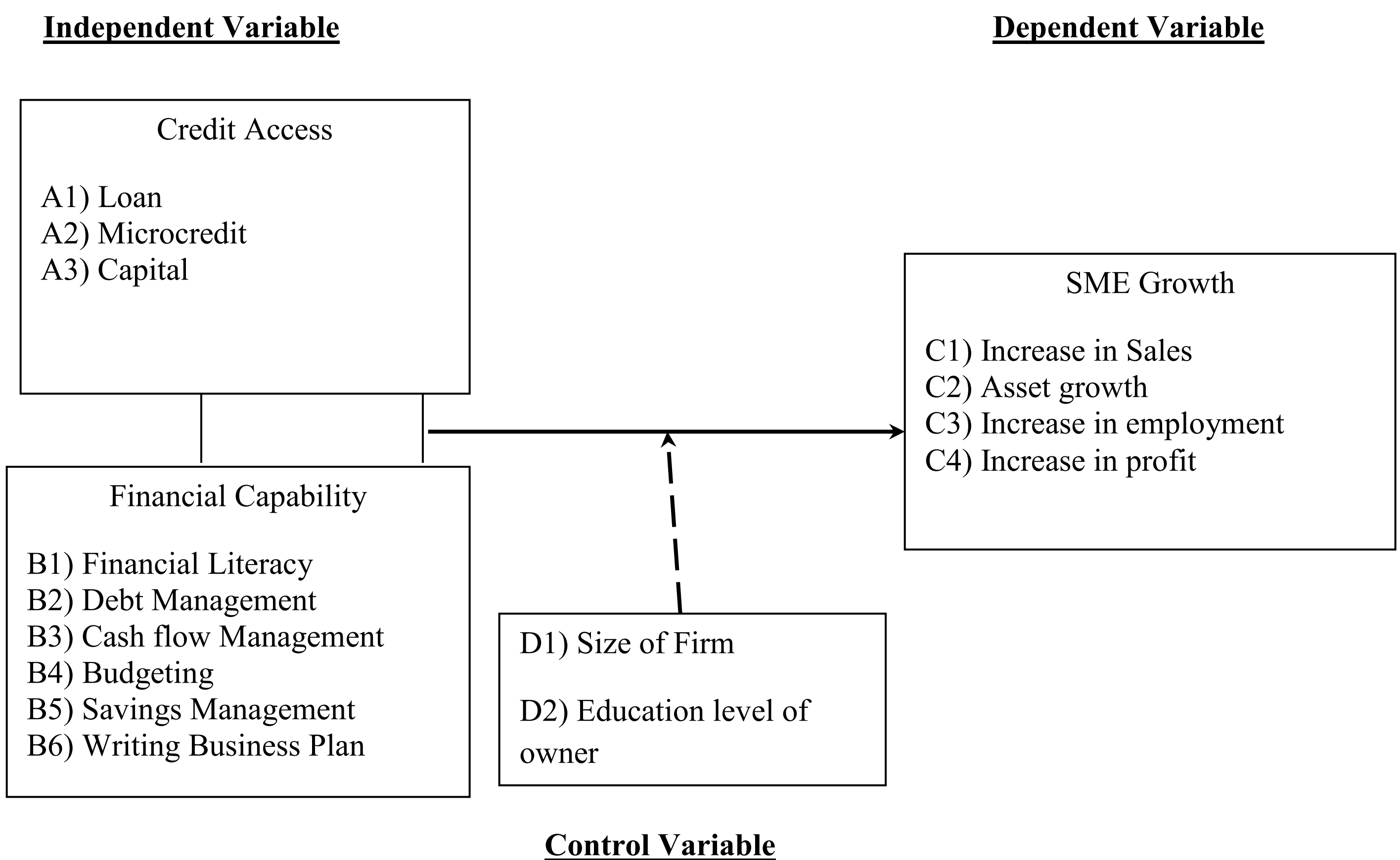
		growth of firms.	growth firms may still face credit constraints due to their youth and inexperience.
			Key theme of the study is that credit access is significantly affected by information asymmetry
Comment: the study focused on banks primarily as a source of external credit for firm and did not include major sources of credit for growing firms such as MFIs			

Source: (Author's Conceptualization)

In summary, the major theme this research will consider from reviewed literature on access to credit are credit constraints that affect SME prospect to grow which stem from information asymmetry and SME inability to pay back loans on time which result from lack of debt management skills. This study will examine access to credit as a constraint by SMEs in ensuring growth.

2.4. Conceptual Framework

Figure 2.1 Conceptual Framework (Researcher's conceptualization)



Source: (Author's Conceptualization)

2.4.1. Explanation of the Conceptual Framework above

The independent variables are credit access and financial capability, the evaluation was done on these key indicators of SME growth which constitute loan, microcredit that serve as capital for SME and for financial capability the evaluation will be done on indicators such as financial literacy, debt management, cashflow management, budgeting, saving management and writing a business plan.

The dependent variable is SME growth. Growth for SME will be conceptualized as increase in sales, asset growth, increase in employment and profit. The relationship between the independent and dependent variables is based on the assumption that access to credit from MFIs, as well as the financial capabilities of SMEs owners, has a significant effect on SME growth. The size of the firm and Education level of owners is the control variables. The efficiency of credit in ensuring SME growth is influenced by numerous factors including size of the firm and the owner's educational level. Studies have shown that size is an important indicator for performance as well as access to credit; size is an indicator of performance in the context of cost reduction (Berkowitz et al, 2017). SME size is one of the indicators of financing constraint, small firms compared to larger firms face financial constraint from financial institutions, they are perceived to be informational opaque because of the quality of their record (Kira, 2013). Access to credit is conditioned on the size of the enterprise (Johannes, 2005), SME lack of credit assessed by financial intermediaries can be understood from the context of its size. Another controlling variable is the owner's education level which is a major factor in the context of financial literacy. SME owner level of education is critical from the perspective of the financial intermediaries; this is because the owners' educational level has a substantial positive relation with their ability to obtain bank loans (Zarook, 2013). Banks perceive SME owners with higher level of education and educational qualifications as creditworthy (Worthington, 2013), hence, their likelihood of credit constraint for SME managers with low education level.

In this study, therefore, the control variables suggest that for SME to become successful given access to credit and financial capability, the aspect of size and owner level of education has to be considered. Against this backdrop, SME will be able to grow and develop and the missing nuances can be easily identified and clearly understood.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This section presents the study's research methodology. It highlights the approaches utilized by the researcher to collect data for the study. It is termed as a logical way of resolving research problem (Kothari, 2004). The chapter presents the research methodology into subsections which entail research design, target population, sampling procedures, data collection; data need table and analysis procedures, it provided details on how the research was conducted.

3.2. Research Design

A research design establishes a framework for collecting and analyzing data (Bryman, 2012). The study sought to investigate the effect of microcredit and financial capability on the growth and development of SMEs in Montserrado County, Liberia. In order to achieve this, the study applied both quantitative and qualitative approaches in data collection and analysis. The research design is the comprehensive plan for data collection and the blueprint for research (Bryman, 2012).

Quantitative data is the collection of numerical data, and it demonstrates a logical approach to the relationship between theory and research, as well as a belief in the existence of social reality (Bryman, 2012). A structured questionnaire was used to randomly sample SME owners in Montserrado County. Consequently, the study have an objectivist perspective and attempts to integrate the results of the study into the theory that access to credit and financial capabilities of SME owners lead to success. The qualitative approach involves a structured interview that was administered to SME owners to establish linkage between access to credit and financial capability on the success of SMEs.

3.3. Study site

This research was carried out in Montserrado County. The County hosts the capital of Liberia, Monrovia and it is the hub of economic activities in the country with a very high concentration of SMEs that lack access to credit. It is evident that the cost of doing business in urban regions is higher than in rural areas (Fanta et al., 2017), it is also notable to consider that the county is the most populated county and the economic engine of the country in term of trade activities which host majority of SMEs, all the bank headquarters as well as MFIs. Bulk of SMEs is in Montserrado County, where physical infrastructure is much better as compared to other parts of the country (Building Markets, 2016). The study site selection is by virtue of the concentration of many SMEs operating in Montserrado that are credit constrained.

3.4. Population and Sampling

The population universe of the study is SME that are registered in Montserrado County. In this study SMEs is the sampling units and the respondents are be owners of SMESs. A list of SMEs from across different sectors in Liberia that are registered in the database of the Public Procurement and Concession Commission and the Liberia Revenue Authority (LRA) was used to get SMEs respondents.

Bhattacherjee, (2012) defines the target population as the specific segment that is in the broader population best placed to serve in a research as the primary data sources.

The sample size targeted for this study is 96 SMEs. A sample size of between 10% and 30% is a suitable representation of the target population when the research population is lower than 10,000. In this study the systematic random sampling shall be used in the selection of SMEs respondents identified from different category of SMEs from 357 registered SME in the LRA database for small and medium enterprises, to ensure a chance of equal selection, respondents will be selected by skipping the first four samples in the population after the first selection. A stratified sampling will not be used in the study because it entails identification of every member of the population which is time consuming especially finding a comprehensive and absolute list of an entire population can be challenging. Each tool will be administered to target respondents in these categories of SMEs.

This method of sampling is advantageous because the aspect of random sampling guarantees that "If on average the chosen sample is a random one, the sample will have the same composition and features as the universe," states the law of Statistical Regularity (Kothari, 2004). In the systematic random sampling the first item shall be selected randomly and the consequent items selected at fixed intervals. This method has the advantage of being simpler and less expensive and less time consuming.

3.5. Data Collection and Sources

Primary data was used to achieve the study objectives. Primary data was collected through structured interviews managed through the use of questionnaires to the owners/managers of SMEs in Montserrado County. This was done using two different methods, first the researcher interviewed respondents via telephone call and secondly, data was collected through a research assistant in Liberia for businesses that were not reached through method one, via a data collection application known as survey to go. Questionnaires offer a high degree of data uniformity and absorption of generic information among any population, according to Chandran (2004). Kothari, (2004) notes that it is important to use primary data because; the very reason of being collected afresh and for the first time, it is original.

3.6 Data Need Table

The data needs table is critical in assisting the alignment of research questions with the methodology. It helps in assembling data collection instruments as well as recognizing the sources of data. Below is the data need table for this study and the source of all the data shall be from the owners/managers of the MSEs and top level credit managers of MFIs.

Table 3.1: Data Need Table

Research Question	Data Needed	Measurement Scale
What is the level of financial capability of SMEs?	**Financial Capability**	
	B1) Financial Literacy	Quantitative
	B2) Debt Management	Quantitative
	B3) Cash flow management	Quantitative
	B4) Budgeting skills	Quantitative
	B5) Saving Management	Quantitative
	B6) Writing Business plan	
What is the level of credit access by SME?	**Credit Access**	
	A1)Receipt of Loans	Qualitative
	A2) Availability of Microcredit	Quantitative
	A3) Capital (Equity financing)	Quantitative

What is the effect of access to credit and financial capability on the growth of SMEs?	**SMEs Growth Indicators**	
	C1) Increase in sales	Quantitative
	C2) Asset growth	Quantitative
	C3) Increase in employment	Quantitative
	C4) Increase in profit	Quantitative

Source: Author's conceptualization

3.7 Data Analysis

Data analysis is the application of statistical techniques to the data, (Bryman, 2012). It is the process of analyzing, cleansing, transmuting, and assessing data in order to identify useful information, develop conclusions, and assist decision-making, (Kothari, 2004).

The data analysis in this study included both qualitative and quantitative methodologies; qualitative data included explanations of information obtained from the questionnaire, while quantitative data included the use of mathematical measurements in determining the score of response delivered.

Statistical Packages for Social Sciences (SPSS) was used to analyze data by employing descriptive statistics, regression, chi-square test, frequency. Qualitative data was ranked and quantified using Likert scale, ordinal logistic regression was employed to establish the effect of predictor variable (independent variables) and dependent variable. Data was coded and analyzed for common themes as established in the literature review.

3.8 Ethical consideration

The researcher ensured all ethical criteria and standards were observed and in conformity with all social sciences standards and codes (Bhattacherjee, 2012). The standards included but were not limited to voluntary participation of respondents, privacy online and seeking informed consent from respondents. Citations were used to cite any sources of knowledge that did not belong to the researcher; the researcher maintained and preserved confidentiality for the respondents and organizations partaking in the research. Respondents were interviewed by research assistants who were trained to adhere to all ethical consideration; during the interview some respondents were skeptical about divulging key information about their business especially in the area of income level. Some respondents kept to themselves their annual income level and their decision was respected by the research assistant.

CHAPTER FOUR: FINDINGS AND DISCUSSION

4.1 Introduction

The study's findings and discussions are presented in this chapter. The survey comprised 28 questions covering the respondent's bio data and demographics, information about the business, access to credit, financial capability and SME growth. This study anticipated reaching 119 respondents' interviewees in Liberia. Unfortunately, 97 respondents were analyzed resulting from interviews being shorter than ten minutes and was subsequently removed from the sample to maintain data integrity. The chapter is divided into four sections, one of which is this introduction. The descriptive analysis results and sample characteristics are discussed in the next segment, 4.2 (owners of the SMEs).

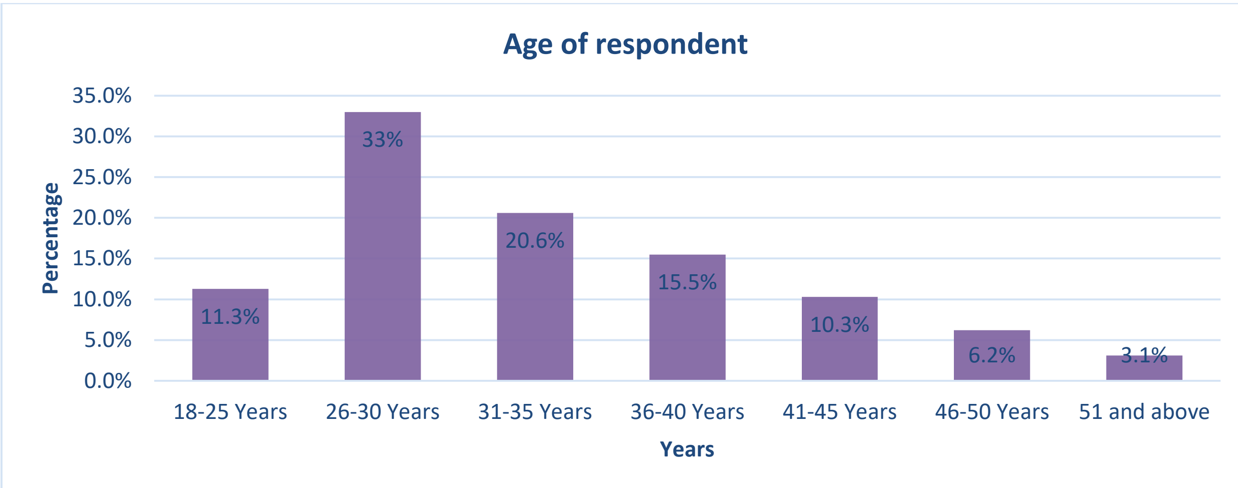
4.2 Characteristics sample of the SME Owners/Managers

The characteristics of the analyze sample are shown in this section. All variables were subjected to a descriptive analysis. They contain information about the firm, credit access and financial capabilities, and SME growth analyses, as well as age, gender, and level of education. The explanation is derived from previous empirical data and variable comparison, and the descriptive analysis is presented in the form of figures and tables.

4.2.1 Age of respondents

The participants were asked to indicate their ages by selecting the age group they belonged to. The findings were then presented in the table below. The highest frequencies for age of respondents were between 26-30 years representing 33% of the sample analyzed, followed closely by those between age group of 31-35 years (20.6%). Furthermore, individuals aged between 36-40 years represented 15.5% while at the lower end between age groups of 18-25 only represented 11.3%. It is worth noting that the older age of 51 years and above registered the least representation at 3.11%. Figure 4.1 below provides the summary of respondent's age.

Figure 4.1 Age of respondents



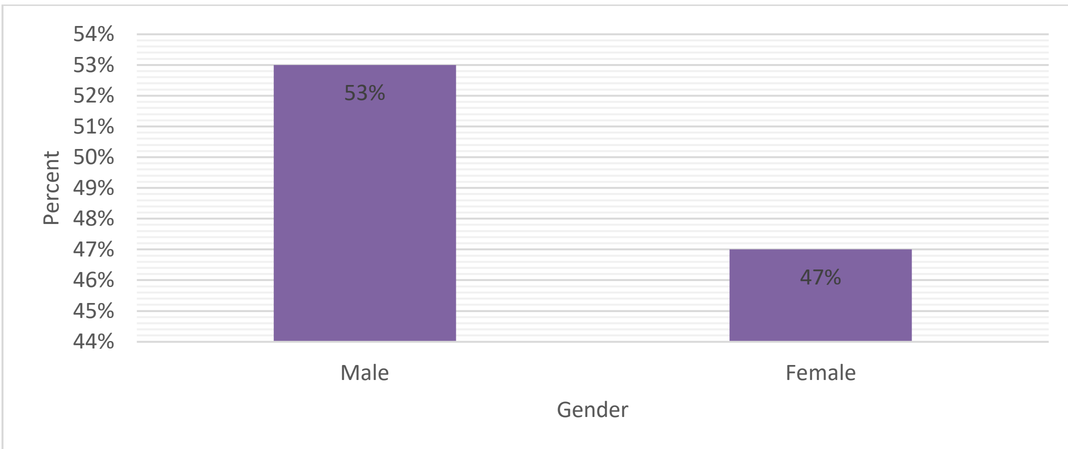
Source (Survey Data, 2021)

4.2.2 Gender of SME owners

The study also observed gender: Male or female with the analysis done descriptively. From the data, majority of the respondents were male at 53% while the female were 47%. This reflects significantly on a well-known gender bias reflected world over. This gender barrier toward women in terms of ownership of small and medium business in Liberia is attributed to limited access finance and markets as well as knowledge of business vision and management[1]. The close margin in gender participation among SMEs owners in Montserrado shows that females are turning up and embracing entrepreneurship, which is a great concept that should be fostered in other emerging markets.

[1] See Striving for business: Voices of Liberian Women Entrepreneurs

Figure 4.2: Proportion of SME owners by gender (n=96)

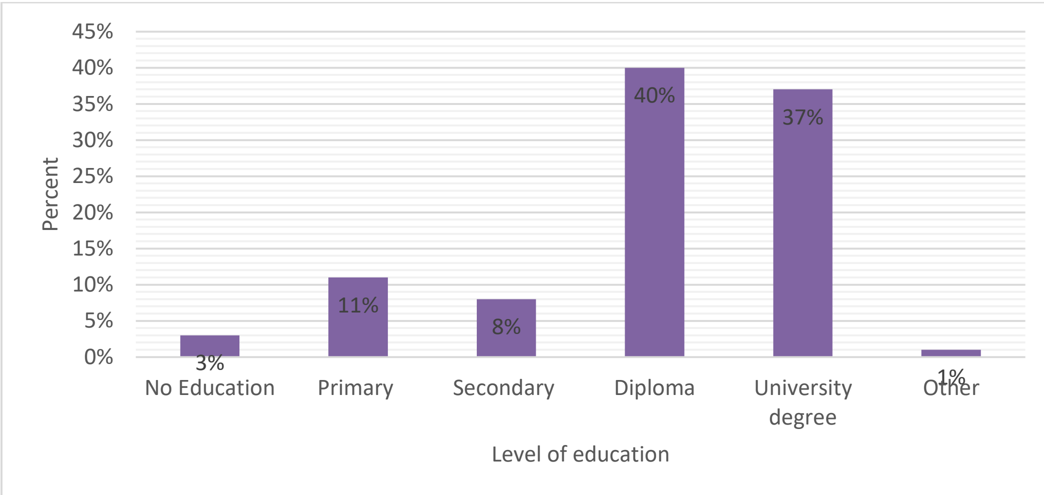


Source (Survey Data, 2021)

4.2.3 Education level of SME owners

The study sought to know the level of education of the respondents. The place of education in influencing and impacting financial capabilities is substantial (Zarook, 2013, Worthington, 2013). Similarly, Sherraden (2013) emphasized further the extent to which skills and knowledge are determined by ones education. The study registered a high proportion of Liberian SME owners having completed some form of tertiary education. Majority (40%) had diploma followed closely with university degree at 37%. 11% had only attained primary education with 3% having no education at all. In summary, the average SME owners in Liberia considered adequately educated as per the study. Figure 4.3 shows the levels of education among SMEs owners in Liberia.

Figure 4.3: SME Owners education level (n=96)

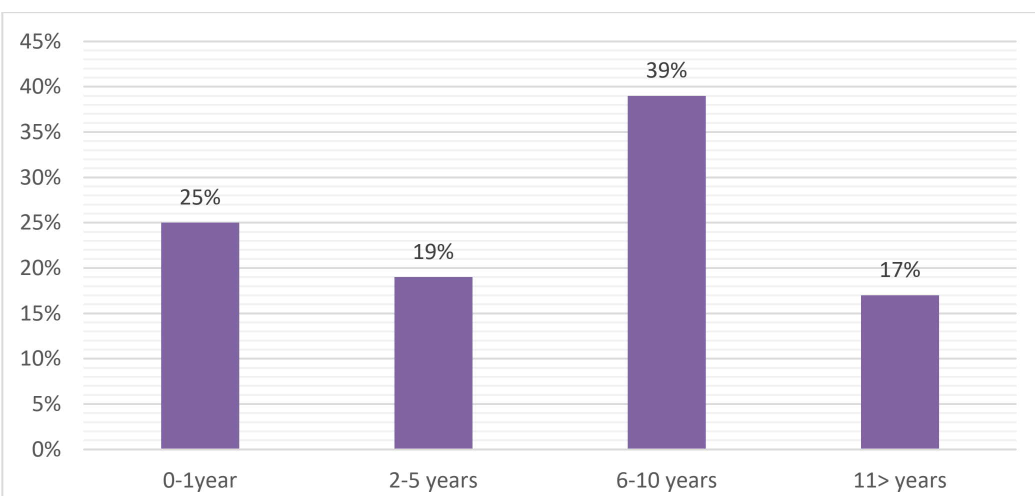


Source (Survey Data, 2021)

4.2.4 Number of years in business by SME owners

The number of years in business is significantly linked to experience, and as Muraya (2019) noted the assumption of the success that comes as the enterprise age. From the study, the enterprises with frequency were 6-10 years in existence at 39%.This was however, followed closely with those with one year existence at 25% followed by 2-5years and 11 years and above at 19% and 17% respectively. Summarily, majority (56%) of SME owners in Liberia have existed beyond six years in their business while 44% are below five years.

Figure 4.4 Age of the enterprises.



Source (Survey Data, 2021)

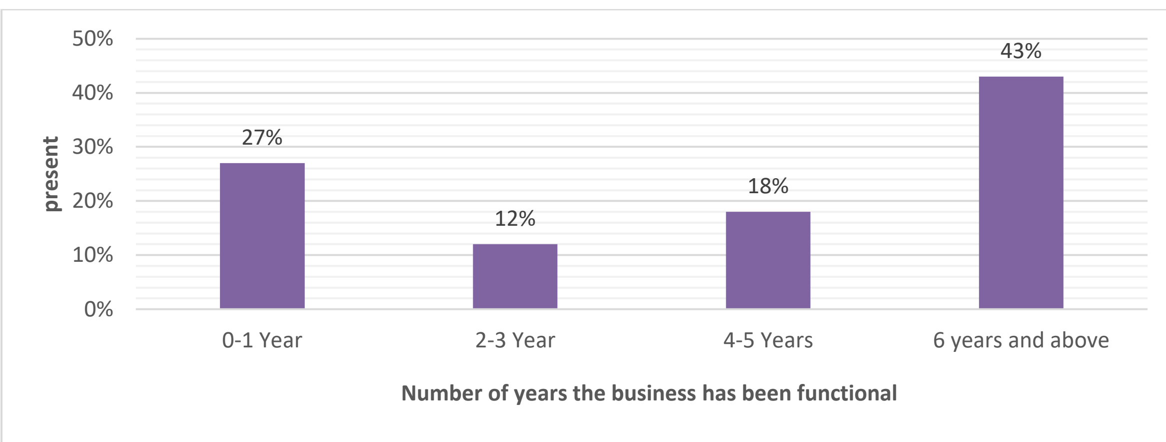
4.3 Information about the business

This section outlines the firm setup of the businesses analyzed in this study. Through descriptive statistics the section will highlight information on the type of business activities, number of years business have been active, year of establishment and the reason for business location.

4.3.1 Number of years the business has been functional.

Studies have shown that SMEs in Africa fail in their first early years of operation. It is indicated that SMEs survive between a periods of one to three years before they die (Bowen, 2009). In this survey study, the statistics show most business have matured and have gone beyond take off stage with 43% representing 6 years and above followed by 4-5 years at 18%. Those in early stages are 1 year and 2-3 years at 27% and 12% respectively. Analytically, the data confirms that stable functionality of the businesses beyond the third year reducing the survival rate of SMEs in Liberia.

Figure 4.5 below is a summary of the number of years the business has been functional.

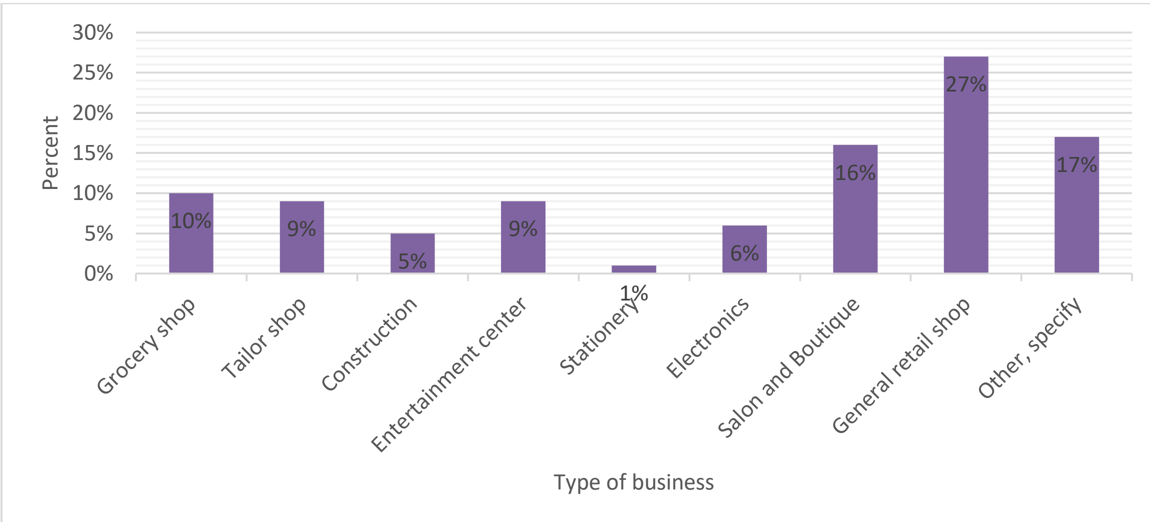


Source (Survey Data, 2021)

4.3.2 Type of Business Activity

This study revealed that the most businesses were in the area of general retailing at 27%, followed by 'other' at 17% (business in the other criteria included eateries, money exchange shops and money lenders, etc.). Furthermore at 16% were businesses in the areas of 'salon & boutique'. Other significant types of business activities included 'grocery shop' and 'tailoring' at 10% and 9% consecutively. In summary, business sampled in this study can mostly be categorized to be within the service sector, and additionally are involved in reselling of items already produced.

Figure 4.6: Type of business activity (n=96)

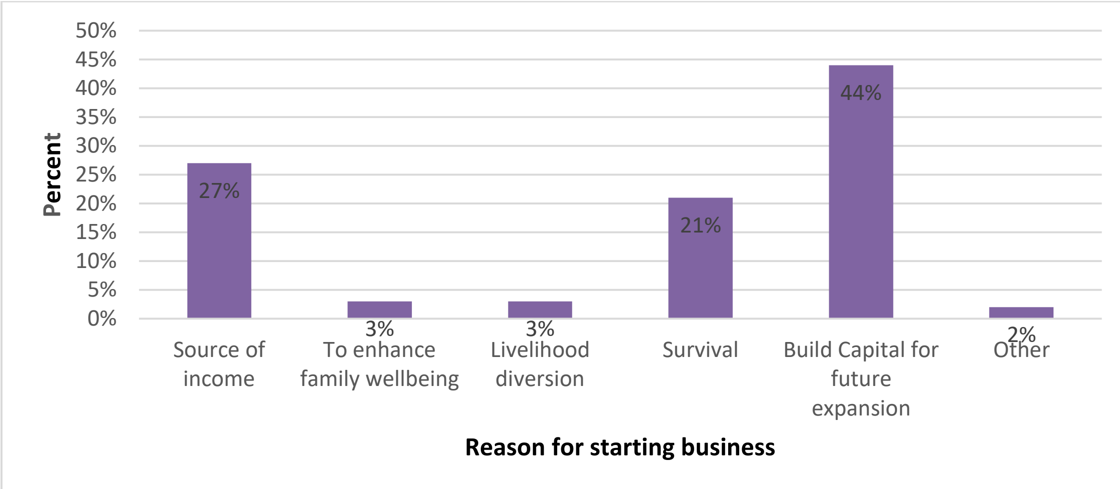


Source (Survey Data, 2021)

4.3.3 Reason for establishment of business

The survey study found out that majority (44%) of the SME owners are influenced by the need to build capital for future expansion. This is followed by 27% influenced to establish their business as potential source of income. Additionally, some SME owners established their businesses simply for survival, family well-being and livelihood diversion at 21%, 3% and 3% respectively. It can thus be concluded that the SMEs owners in Montserrado County are entrepreneurial in nature and motivated by expansionist's ideas in starting their business. This as shift from previous studies that shown most small businesses to establish by their owners for survival purposes.

Figure 4.7: Reason for starting the business (n=96)



Source (Survey Data, 2021)

4.3.4 Location of Business

The businesses analysed in this study were all located within the Montserrado County. The owners of the businesses choose to locate their business at specific strategic areas according to the circumstances of their business. Majority (46%) considered convenience a significant factor in choosing the business location followed at distance by 19% whose main consideration was convenience and 18% that cited locating the business closer home for easy access. Additionally, locating a business on a busy street (13%) and affordability (2%) among other reasons were other factors considered by SMEs owners for the choice for businesses location.

The figure 4.8 below shows the decisions the business owners considered in choosing locations for their businesses.

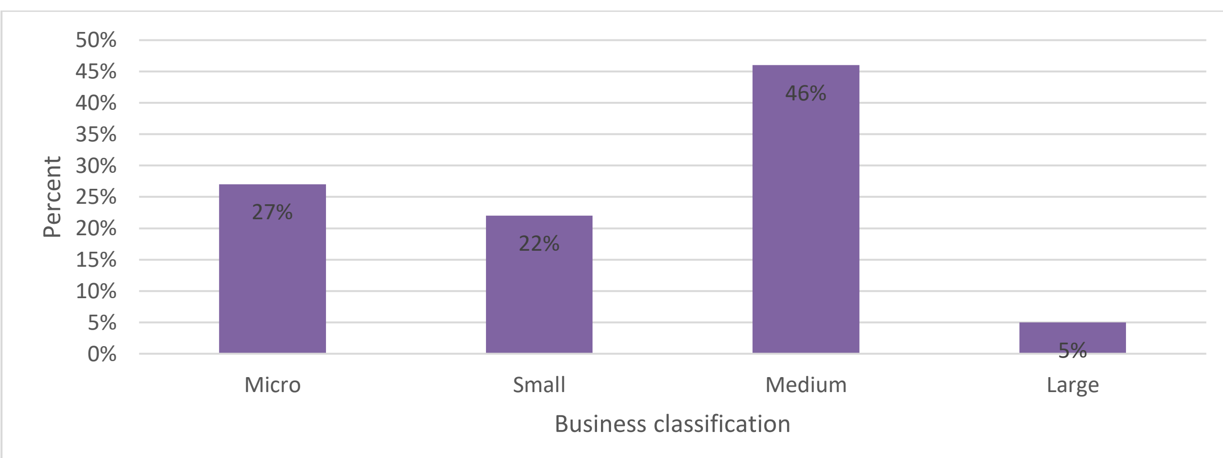
Figure 4.8: Reason behind business location (n=96)

Source: (Survey Data, 2021)

4.3.5 Business size classification

In terms of size, the study found majority (46%) of the businesses to be medium sized, followed by micro at 27% while small was at 22% and large enterprises was 5% .This classification was hinged on the number of employees, income and assets a business has. The figure 4.9 below shows the business size classification.

Figure 4.9: Business size classification (n=96)



Source: (Survey Data, 2021)

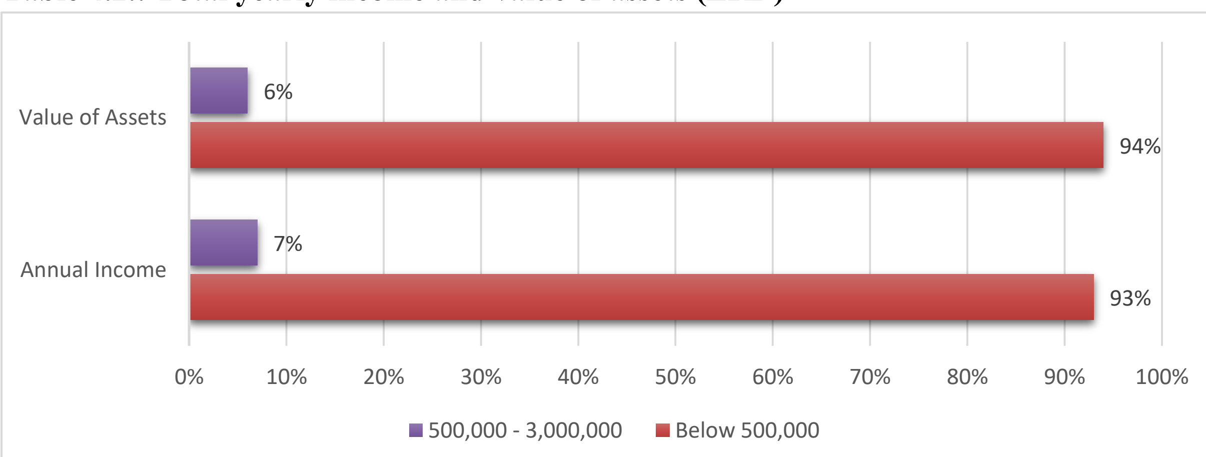
Concerning the number of employees employed by the SMEs, their annual income and value assets in Montserrado County, the study found all the SMEs analysed to have between 1-9 employees at 100%. On the other hand, the yearly income that businesses generate is majorly between below 500,000 LRD by 93% of enterprises analysed while the value of assets attached the SMEs were majorly below 500,000 LRD at 94% of enterprises analysed.

Table 4.1: Current number of employees

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-9	96	100.0	100.0	100.0

Source (Survey Data, 2021)

Table 4.2.: Total yearly income and value of assets (LRD)

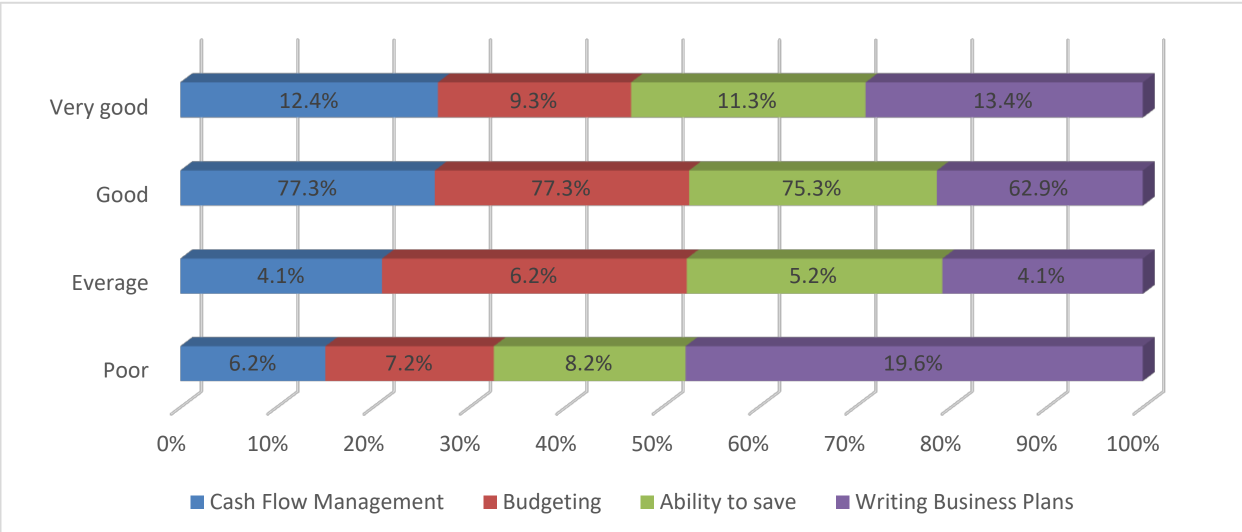


Source (Survey Data, 2021)

4.4 Financial capability of SMEs owner

Financial capability emphasizing on literacy is one of the important concept investigated in this study, as described in section 2.4 (conceptual framework). Empirically there is a relationship between owners' financial literacy and firms' growth. In this survey, to understand the levels of financial capability among SMEs owner in Montserrado County, a series of questions were constructed as per the features of financial education needed by SMEs owners. The study looked at the aspects of knowledge in terms of Cashflow Management, Budgeting, Ability to save and Writing Business Plans.

The figure 4.10 below is a graph summarizing of the findings of financial capability of SMEs owners.



Source**:** (Field survey data, 2021)

Cash flow management knowledge

With regards to cash flow management, majority (77.3%) indicated they were good while 12.4% indicated they were very good at managing their cash flow with only few (6.2%) were very poor on the same.

Budgets

On budgeting, majority (77.3%) cited their budgeting ability to be good with 9.3% indicating their budgeting experience to be very good. This is attributed to trainings on accounting and ability of the business owners to appreciate the significance of budgeting. However, 6.2% and 7.2% indicated being average and poor respectively.

Business Plan experience

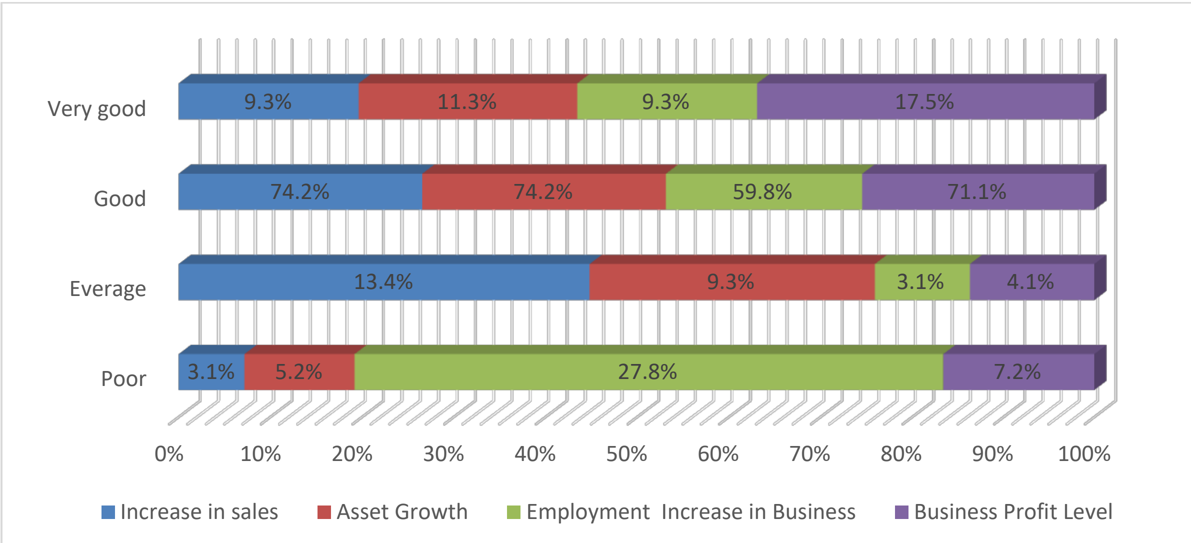
Concerning the ability to write business plans, the study found out majority 62.9% and 13.4% to be good and very good undertaking business plans respectively. A minimal 4.1% had an average experience as compared to the 19.1% that registered poor experience on writing business plans.

Ability to Save

The study as shown in the table 4.10 below also indicated that majority (75.3%) had good experience and capacity to save trend followed by 11.3% who had very high ability and experience to save. Conversely, 5.2% registered average ability while 8.2% had poor ability and experience to save their finances.

These impressive financial capabilities of SMEs business in various aspects was generally attributed to the level of education of respondents. Although most respondents did not acquire formal financial training on how to run a business but their level of education impacted financial capabilities. From the study, there were increase sales with majority (74.2%) registering good increase in sales with 9.3% indicating a very good sales increase. With regards to asset growth, majority (74.2%) cited good assets growth and 11.3% very good assets growth as attributed to financial capabilities of the businesses. The businesses also indicated a good increase in employment at 59.8% and very good registration of the same at 9.3%, however, 27.8% indicated poor result in employment increase. In terms of profit, 71.1% registered good profit level, and 17.5% indicating very good business profit level compared to 7.2% citing poor business profit level. This is further illustrated below in figure 4.11.

The figure 4.11 below is a graph summarizing of the findings financial capability on SMEs growth.



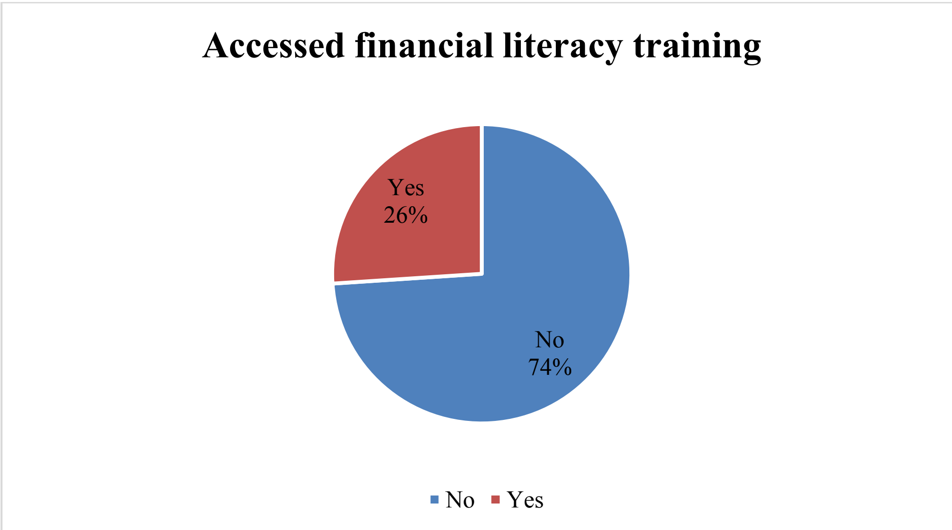
4.4.1 Level of financial capability in harnessing access to credit for SME growth

The second objective of the study was to understand the level of financial capability in harnessing access to credit for the growth of enterprises. Financial capability in this study includes several factors related to financial literacy.

4.4.2. Ever accessed financial literacy training

The study sought to find out whether the participants had ever accessed financial literacy training.

Figure 4.12: Accessed financial literacy training



From the results obtained, it was established that majority of the participants had not accessed any financial literacy training. This was noted among 74% of the participants. It was noted that only 26% of the participants had accessed financial literacy training. This was an indication that there is a gap in terms of financial capability which needs to be addressed through capacity building training.

4.4.3 Usefulness of financial knowledge in running the enterprise

The study further sought to understand how the participants rated the usefulness of financial knowledge in running enterprises. The results of this inquiry were as follows.

Table 4.3: Rating of the usefulness of financial knowledge in running the enterprises

	Frequency	**Percentage**
Average	11	12.1
Good	73	73.8
Poor	2	3.0
Very good	10	11.1
Total	**96**	**100.0**

From the results above, most participants were of the opinion that financial knowledge was good in terms of its usefulness in running enterprises. This was mentioned by 73.8% of the participants with 12.1% giving a rating of average, 3% giving a rating of poor and 11.1% giving a rating of very good. Therefore, it was noted that financial knowledge was very useful in the running of enterprises.

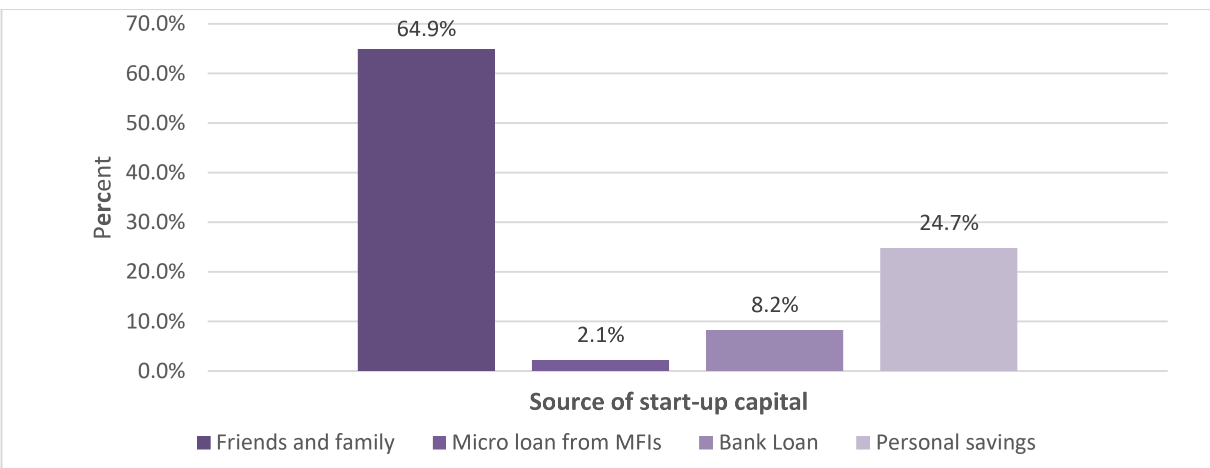
4.5 Access to Credit

This section presents the descriptive results on access to credit amongst SMEs owners in Montserrado County. Literature provides a correlation between access to credit and the growth and development of SMEs. As Makorere (2014) posits, the objects of microcredits is to expand financial markets through credit access to SME's.

4.5.1 Source of start-up capital

As shown in figure 4.12 below, majority (64.9%) of SME owners in Montserrado County sourced their start-up capital from their family and friends followed by 24.7% whose capital came from personal savings. Bank loan and Micro loan from MFIs only supported 2.1% and 8.2% respectively.

Figure 4.12: Sources of Capital for SME owners



Source: (Survey Data, 2021)

4.5.2: Access of Microcredit Loans and Loan terms

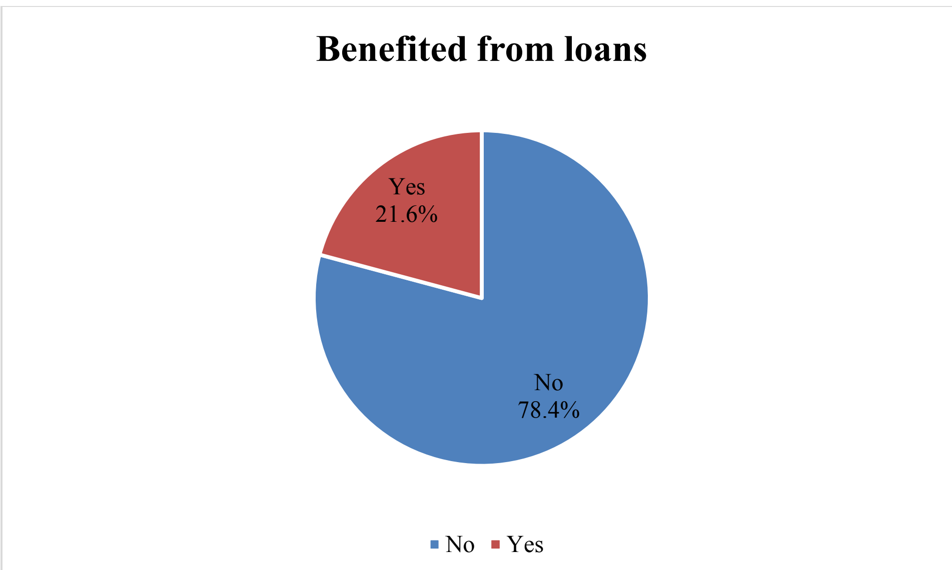
With regards to access of Microcredit Loans and Loan terms, the study found that only 21.6% had benefitted from loans from the microcredit institutions as compared to the majority (78.4%)

that have never benefitted from the loans from MFIs. This corroborates the reason why majority of SME owners in Montserrado County raised capital from friends and family.

4.5.3 Benefited from loans offered by MFIs

The study first sought to establish whether the participants had benefited from loans that were offered by MFIs. The results were presented as shown below.

Figure 4.13: Benefited from loans from MFI



The study established that majority of the participants had not benefited from loans offered by MFIs. This was noted among 78.4% of the participants with 21.6% noting that they had benefited from these loans. The study thus noted that most of the enterprises had not accrued any benefits from credit facilities. These results further compounded to earlier findings on source of startup capital that showed only 2.1% of the respondents have accessed Bank loan and 8.2% of the respondents accessed loan from MFIs.

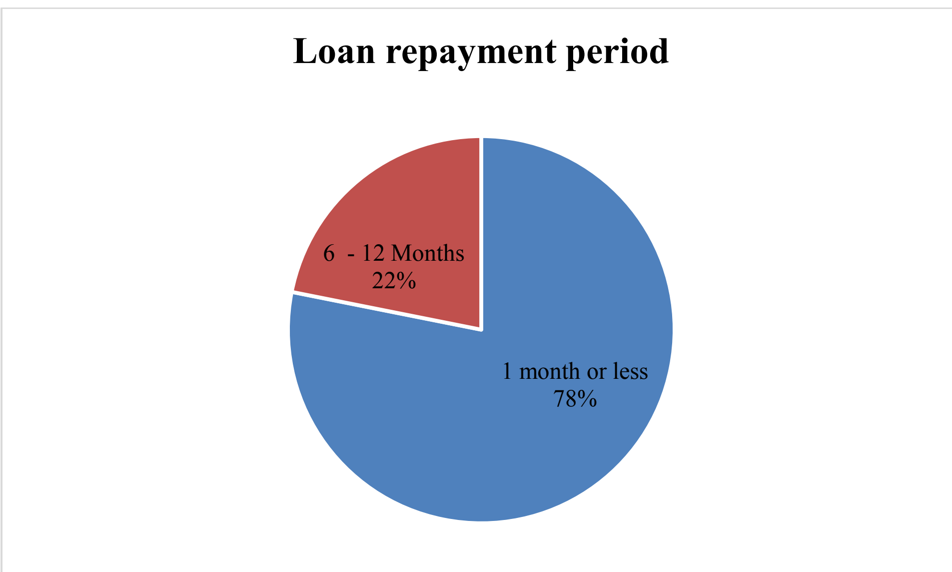
Another reason why the only 10% of the respondents sought start-up capital from MFI and banks is attributed to the repayment period which all of the owners 100% indicated between 6months to

12months (1 year). This shorter loan repayment period meant SMEs owners with long term growth and expansion plans sought alternatives since short term loan repayment period are characterized by high interest rates.

4.5.4 Loan repayment period

In accessing loans from MFIs, the study sought to establish the period that the participants had to repay the loans obtained from MFIs. The results indicated that most of the participants had 1 month or less to repay their loans. This was noted among 78% of the participants with 22% noting that the repayment period was between 6 and 12 months. A shorter repayment period puts a lot of pressure on enterprises, and this discourages them from borrowing. The results are shown below.

Figure 4.14 Loan repayment period



4.5.5 Challenges that hinder enterprise growth.

The study found out that SME owners in Montserrado have indicated that lack of enough finances is one key hindrance to the enterprise growth at 41.4%. Most businesses in Montserrado County have financial issues coupled with other interferences that prevent their business from growing, Table 4.4 shows the challenges that hinder growth of enterprises in Montserrado County.

Table 4:4 Challenges that hinder growth of enterprises

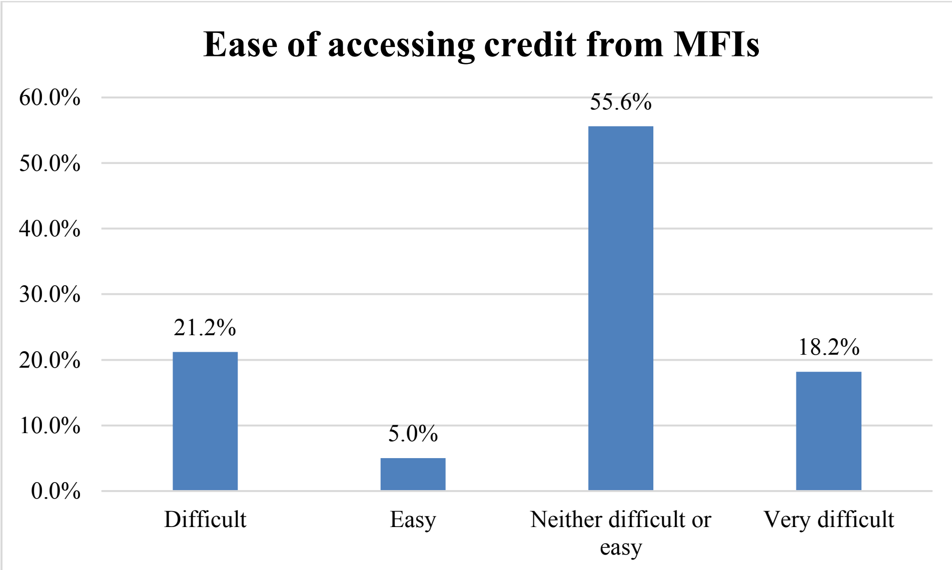
Challenge	Frequency	Percentage
Lack of access to credit	2	3.0
Lack of enough finances	41	41.4
Lack of market for products	8	9.1
Others (Please specify)	40	40.4
Poor financial literacy	5	6.1
Total	**96**	**100**

The study established that lack of finances was the most common challenge hindering growth of businesses. This was noted among 41.4%. Lack of access to credit was cited by 3%, lack of market for products was cited by 9.1% while poor financial literacy was cited by 6.1%. The 40.4% who cited other challenges mentioned lack of mentorship and business incubation, high taxation and high costs of licenses and permits as well as poor marketing practices.

4.5.6 Ease of accessing credit from MFIs

In the same vein, the study sought to understand the ease of accessing credit from MFIs by the enterprises. The findings were presented as shown below.

Figure 4.15: Rating of the ease of accessing credit from MFIs.



The study established that 5% of the participants felt that it was easy to obtain credit from MFIs with 18.2% noting that was very difficult, 21.2% noted that it was difficult while 55.6% were of the opinion that it was neither difficult nor easy. In general therefore, it was observed that as mentioned by 39.4% of the participants, accessing credit from MFIs was difficult.

4.5.7 Rating of business performance after accessing credit from MFIs

The study thus sought to understand how the participants rated the performance of enterprises after accessing and utilizing credit from MFIs. The results were as shown below.

Table 4.5: Rating of business performance

Rating	Frequency	Percentage
Better	75	76.8
Worse	8	9.1
Has remained the same	1	1.0
Much better	11	12.1
Much worse	1	1.0
Total	**96**	**100.0**

The study established that businesses performed better after accessing credit from MFIs. This was noted by 76.8% with 12.1% noting that the performance was much better. Those who mentioned that the performance was worse were 9.1% while 1% noted that the performance was much worse. An additional 1% also noted that the performance has remained the same even after accessing credit. Therefore, the study observed that businesses had realized better performance as a result of accessing and using credit obtained from MFIs.

4.5.8 Financial capability and source of capital to the performance of the SMEs

A cross tabulation was also carried out for financial capability and source of capital with regards to (financial literacy, debt management, cash flow management, budgeting, savings management and writing of business plan) to find any correlation.

The results are summarized in table 4.6 below.

Table 4.6 Cross tabulation of Financial capability and source of capital to the performance of the SMEs

Variables	Chi-Square	Pearson R
Financial Literacy	0.488	0.233
Debt Management	0.001	0.001
Cash flow Management	0.215	0.176
Budgeting	0.267	0.252
Savings Management	0.081	0.011
Writing Business Plan	0.335	0.679

A cross-tabulation the source of capital and the same variables measuring financial capabilities in the performance of the SMEs showed that there was no significant dependence on all the variables financial literacy, cash flow management, budgeting and savings management except for debt management which showed significant at a P value of 0.001. The correlation testing for the same by use of Pearson correlation analysis of the six measures of financial capabilities with success also showed no significance for financial literacy, cash flow management, budgeting and writing business plan except for debt management which showed significant dependence at the R of $0.001<0.05$

To summarize, the finding agree with the literature that financial literacy is an important component in the growth of SMEs. Key variables of financial literacy from the findings; debt management and savings management shows that financially literate SMEs owners will adhere to repayment period of loan and save for business expansion and growth of their enterprises.

4.5.9 Financial Capability and SME Growth

The study focuses on the role of financial capability and credit access to the growth and development of SMEs. To this end, a cross tabulation was carried out for financial capability and SME growth with regards to (financial literacy, debt management, cash flow management, budgeting, savings management and writing of business plan) to find any correlation thereof. The results are summarized in table 4.7 below.

Table 4.7 A Cross tabulation of Financial capabilities and SME Growth

		SME Growth				X^2	Rho
		Poor	Average	Good	Very good		
Financial capabilities	Average	12.5%	37.5%	50.0%	0.0%	24.183**	0.412**
	Good	0.0%	15.1%	74.0%	11.0%		
	Very good	0.0%	0.0%	57.1%	42.9%		
Total		2.1%	17.7%	68.8%	11.5%		

From the results, most of the entrepreneurs with good financial capabilities reported that the growth of their businesses was either good or excellent. This was different from those who reported average financial capabilities where half of them indicated that the growth of their enterprises was either poor or jus average. Chi-Square test confirmed this finding by revealing a statistically significant association between financial capabilities and SME growth (p-value < 0.001). Further, correlation analysis showed a positive moderate relationship between financial capabilities and SME growth.

4.5.10. Access to credit and SME growth

The study sought to find the correlation and independence between the independent variable credit access and the dependent variable SME growth, the result of the findings is summarize in figure 4.8 below.

Table 4.8 A Cross tabulation for Access to credit and SME Growth

		SME Growth				X^2	Rho
		Poor	Average	Good	Very good		
Access to credit	No	2.6%	17.1%	75.0%	5.3%	14.893**	0.208**
	Yes	0.0%	20.0%	45.0%	35.0%		
Total		2.1%	17.7%	68.8%	11.5%		

Similarly, SMEs that had accessed credit reported better growth compared to those that did not access financial credit. For instance, 35% of those SMEs that had accessed financial credit had an excellent growth compared to only 5.3% who had not accessed financial credit yet they recorded an excellent growth. Chi-Square test established an association between credit access and SME growth which was statistically significant (p-value < 0.001). In addition, correlation analysis showed a positive moderate relationship between access to financial credit and SME growth.

4.5.11. Regression Analysis

The third specific research question of this study was to find out the effect of access to credit and financial capability on the growth of SMEs. To attain this, an Ordinal logistic regression was conducted to establish the effects of predictor variables (financial capabilities and credit access) on the level of SME growth. From the results, all the parameters fitted were statistically significant at 95% confidence level. The results are shown in table 4.9

Table 4.9. Results of regression analysis on financial capabilities and credit access on SME growth.

		Estimate	Exp_B	Std. Error	Wald	Df	Sig.	95% Confidence Interval (Exp_B)	
								Lower Bound	Upper Bound
Threshold	[S = 2]	-7.375	0.00062673	1.266	33.956	1	0.000	5.2432E-05	0.00748391
	[S = 3]	-4.72	0.00891518	1.055	20.01	1	0.000	0.00112609	0.07051005
	[S = 4]	-0.616	0.54010052	0.88	0.49	1	0.484	0.09613518	3.03132555
Location	[F=3]	-3.851	0.02125847	1.012	14.481	1	0.000	0.00292635	0.15458673
	[F=4]	-1.921	0.14646043	0.855	5.044	1	0.025	0.02740582	0.78270454
	[F=5]	0[a]		.	.	0	.	.	.
	[C=0]	-1.18	0.30727874	0.588	4.023	1	0.045	0.0970043	0.97336124
	[C=1]	0[a]		.	.	0	.	.	.

Link function: Logit.
a. This parameter is set to zero because it is redundant.

Based on the table above, the response variable was ordinal variable and estimates were computed for each level. The predictor variable (financial capability) was an ordinal scale where the base category was the highest measurement (very good). Credit access was a dichotomous variable (0,1) where those who had accessed credit were compared to those who did not.

From the results, the businesses with good financial capabilities were 85.4% less likely to experience good growth compared to those with very good financial capabilities. Those with average financial capabilities were 97.9% less likely to experience good growth when compared to businesses with very good financial capabilities.

On the other hand, businesses which had not accessed credit were 69.3% less likely to realize good business growth compared to those which had access to financial credit. The result established that credit access and financial capability had great significance to SME growth. Indications from the above result show that very good financial capability and credit access are important to the growth of SMEs with a 95% confidence level.

Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Intercept Only	56.680			
Final	35.093	21.587	3	.000

Link function: Logit.

The p-value of less than 0.001 indicates that the model is a very perfect fit for the data.

Goodness-of-Fit

	Chi-Square	Df	Sig.
Pearson	14.389	12	.277
Deviance	15.642	12	.208

Link function: Logit.

In order for the model to be a good fit, we would choose to fail to reject the null hypothesis (H0: the model is not a good fit) for this table. There are two tests (Pearson and Deviance) where the model is deemed fit when p-value is above 0.05 (at 95% confidence level). In both tests, the p-value was more than 0.05 thus we reject the null hypothesis and conclude that the model is a good fit.

Test of Parallel Lines[a]

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Null Hypothesis	35.093			
General	23.688	11.405	6	.077

The null hypothesis suggests that all response categories have the same location parameters (slope coefficients).
a. Link function: Logit.

This confirms the proportional odds assumption, and we want it to be greater than 0.05. This is the case in this situation (p-value = 0.077). The ordinal regression's fundamental assumption is verified.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The primary objective of this study was to examine the effect of microcredit and financial capability on the growth of SMEs in Montserrado County, Liberia. The study sought to understand the level of access to credit by SMEs, the level of financial capability in harnessing access to credit for SME growth and the effect of access to credit and financial capability on the growth of SMEs.

5.2. Summary

The research main objective was to examine whether access to credit and financial capability influence enterprise growth among SMEs owners in Montserrado County. The research study arose as a result of SMEs owner financial capability to make effective financial decisions and the credit constraints that affect SME prospect to grow which stem from information asymmetry and SME inability to pay back loans on time which result from lack of debt management skills. The study was carried out in Montserrado County because the area is the epicenter of small and micro enterprises in Liberia. A total of 119 enterprises were interviewed using a standardized questionnaire, SME owners were interviewed, and data were collected and analyzed to hypothesize the study. 96 respondents were analyzed due to short interview duration of less than ten minutes of 23 respondents. The findings were presented in tables and charts, and the analysis included descriptive and cross tabulation.

Descriptive analysis in Montserrado County showed that most of them were between the ages of 25-35 years, indicating a young population owning SMEs and accounting over 30% of ownership as per the surveyed sample. The results also indicated that by a small majority that SME owners were women (47%) compared to their male counterparts (53%). SMEs owners' also showcased high levels of education attainment, 40 per cent of them had obtained a diploma and 37% of SMEs owners had a university degree. Most SME owners in Montserrado County have been active in their business for about 6 years and above representing over 40 per cent of the analyzed sample indicating that most SME owners are not so new entrants into their businesses.

Furthermore, on the descriptive analysis with regards to the information on the businesses, the type of business surveyed was in general retailing activities at 27 percent. The results also revealed that most businesses were established or started to build capital for future expansion goals (44 per cent). Additionally, a majority of the businesses considered to be medium in size (46 per cent), the basis of the classification was mainly derived from the number of employees they currently had.

On owners' financial capability, the self-rated level of financial literacy was high on all indicators; usefulness of financial knowledge, debt handling, cash flow management, budget making, understanding savings for business and business plans writing. This vary with other literature and study conducted in low income countries and emerging market where findings show low level of financial capability among SMEs owners, I conjecture that this is because the education level among respondents was high, the population was built from the Liberia Revenue Authority database for register SMEs, this shows a level of financial awareness, organization level and maturity level in running an enterprise. All the questions were ranked 'good' and 'very good' with over 70 percent approval in each. Further analysis showed males, the more educated and older young people considered financial knowledge to be very useful in business compared to females, the less educated and the younger youth.

Descriptive results on access to credit showed that most SME owners in Montserrado County obtained startup capital from friends and family representing 64.9%. Additionally, a majority of the analyzed samples do not have access to credit or microcredit product from a microfinance institution in Liberia and were mostly subjected to a loan period of 1 month or less to repay their loans. This was noted among 78% of the participants with 22% noting that the repayment period was between 6 and 12 months. A shorter repayment period puts a lot of pressure on enterprises, and this discourages them from borrowing. However, majority of those who accessed microcredit products indicated that their business performance after accessing was better representing 76.8%. Additionally, most SME owners indicated that it was 'neither difficult nor easy' to access credit from the microfinance institutions representing 55.6 percent of the sample. Lastly, SME owners in Montserrado County noted that the greatest hindrance to enterprise development was the lack of enough finances (41.4 per cent).

The regression analysis showed credit access and financial capability are very important to SME growth, businesses with good financial capabilities were 85.4% less likely to experience good growth compared to those with very good financial capabilities. Those with average financial capabilities were 97.9% less likely to experience good growth when compared to businesses with very good financial capabilities.

On the other hand, businesses which had not accessed credit were 69.3% less likely to realize good business growth compared to those which had access to financial credit

5.2.1 Summary of findings

5.2.1.1. The level of access to credit by SMEs

The study established that access to credit by SMEs was very poor. This can be noted from the fact that even at the startup level; only 10.3% of the participants had access to loans from formal financial institutions as their startup capital. This is compounded by the findings which indicated that only 2.1% of the participants had access to loans offered by MFIs. The study further established that lack of finances which was occasioned by lack of access to credit were some of the main challenges that hindered the growth of SMEs. The poor level of access to credit facilities was noted to be making access to credit difficult among most of enterprises as it was observed that as mentioned by 21.2% of the participants, accessing credit from MFIs was difficult.

5.2.1.2. The level of financial capability in harnessing access to credit for SME growth

The study established that a very small portion (26%) of the participants had accessed financial literacy training. This was an indication that there is a gap in terms of financial capability which needs to be addressed through capacity building training. This was despite the fact that most participants were of the opinion that financial knowledge was good in terms of its usefulness in running enterprises. In assessing the level of financial capability of the enterprise owners, the study established that most of the participants were good in handling debt, managing cash flow, making budgets and business projection, saving business income and writing business proposals.

This shows therefore that their financial capability was good and corresponded to growth of their enterprises.

5.2.1.3 Effect of Access to Credit and Financial Capability on the growth of SMEs.

As pointed out by an overwhelming 76.8% of the participants, the study established that businesses performed better after accessing credit from MFIs. Furthermore, the study established that the level of access to credit and the financial capability had a positive effect on growth of enterprises in terms of increasing the sales, growing the assets, increasing employment opportunities and raising the business profit levels.

5.3. Conclusions

In Liberia there is limited literature on financial capability, studies have focus only on access to credit and credit constraint. This is one of the few studies that focus on access to finance with the role of financial capability. Access to credit is essential to enterprise growth but it is vital to compliment study of credit access with financial capability. It is important to understand access to credit and financial capability in the growth of enterprises.

The study concluded that the level of access to credit was poor and was a challenge that hindered the growth of SMEs.

The study also established that despite not having accessed financial literacy training, the business owners had good financial capability which was congruent to the growth of their enterprises; this was based on the findings that most SMEs managers had substantial education level which aided in some area of financial decision made by the enterprise.

The study concluded that businesses performed better after accessing credit, the level of credit access and the financial capability had a positive impact on growth of SMEs in terms of increasing the sales, growing the assets, increasing employment opportunities and raising the business profit levels.

5.4. Recommendations

This study considers several recommendations for practice and policy based on the results and conclusions as well as the suggestion for additional research. Foremost, in terms of financial knowledge, a structured framework for financial education for SME owners is vital because the study has demonstrated the relevance of financial understanding in business management.

Enterprise owners should be exposed to frequent financial literacy training as a means of increasing their capacity to run their businesses effectively, adequately source for affordable credit and utilize credit prudently for the growth of their enterprises.

There is a need for financial institutions to increase credit access to SME owners; currently most owners are dependent on borrowing from family and friends and personal savings as primary sources of capital. Thus, showing there are still credit constraints and owners cannot have the necessary credit facilities to improve their businesses. This study recommends that financial institutions come up with target lending to SME in Liberia and additionally develop products which suit the nature of their businesses. Banks and MFIs should introduce and make available credit facilities that are friendly to SMEs in terms of loan security and longer and flexible repayment periods. This will attract more enterprises to make use of credit for the growth of SMEs.

There should be collaborative engagements to ensure enterprise owners have access to mentors and business incubation for them to understand their businesses well and make good business decisions such as seeking credit and building their credit score.

Finally, the study has shown that there are many areas of further research that need to be explored such as on other causes of credit constraints that affect owners of SMEs, supply-side constraints (financial institution constraints), external factors hampering the growth of enterprises can also be studied. Also understanding the owners' sources of capital preferences can expound on the credit demand and supply imbalance.

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APPENDICES

Appendix 1: QUESTIONNAIRE

Question	Answer
Role of Microcredit and Financial Capability in the Growth of SMEs in Montserrado County. Survey by Abdul Rahman Kiawu	
Interviewer name	
GPS coordinates	
Date of interview	
Interview start time	
Hello. My name is {0}, collecting data on behalf of Abdul Rahman Kiawu, a Master student at the institute for Development Studies (IDS) of the University of Nairobi. I am currently undertaking my research project on Role of Microfinance Credit and Financial Capability in the Growth of SMEs in Montserrado County. Your business has been selected for the survey. I am kindly requesting for 30 minutes of your time to answer some questions on this subject. The information you provide will be strictly confidential is going to be utilized only for academic purposes. The findings of the study will be used in a Master of Development Studies project and published in an academic journal. Your valued time and cooperation is highly appreciated in advance.	Yes No
Q1. Name of respondent	
Q2. Designated job in the business	
Q3. Number of years in the business	
Q4. Age of respondent	18-25 26-30 31-35 36-40 41-45 46-50

	Above 50
Q5. Gender	Male Female
Q7. Contact - Email or telephone number	
Q8. Highest education level Q8 answers D2	No education Primary education Secondary education Diploma University degree Other
I am going to ask you questions relating to your business.	
Q9. Name of business	
Q10a. Year of establishment	
Q10b. Number of years the business has been functional	
Q11. Type of business activity	Grocery shop Tailor shop Construction Entertainment center Stationery Electronics Salon and Boutique General retail shop Other, specify
Q12a. Location of the business at start up	

12b. Current location	
Q12c. Why did you choose this location for your business?	Close to home It is a busy street It is convenient for my business Less traffic congestion Easy access for my customers Affordable Other
Q13. Why did you start this business?	Source of income Enhance family wellbeing Livelihood diversification Survival Build capital for future expansion Other
Q14a. How would you describe the size of this enterprise?	Micro Small Medium Large
Q14b. What is the basis for stating the size as above?	Number of employees Income Asset
Q14c_1. Number of employees right now	1 – 9

Q14c1 answers D1	10 - 45 50 - 99 100 and Above
Q14c_2. Total yearly income LRD Q14c2 answers C4	Below 500,000 500,000 - 3,000,000 Above 3,000,000
Q14c_3. Total asset value right now LRD Q14c3 answers C2	Below 500,000 500,000-15,000,000 Above 15,000,000
I am going to ask you questions on access to credit of the business.	
Q15. What was the major source of your startup capital? Q15 answers A3	Friends and family Micro loan from MFIs Bank Loan personal savings Other
Q16. Have you benefited from loans from microfinance institutions? Q16 answers A2 and A1	Yes No
Q17. What is the loan repayment period as per the conditions of MFI?	6 - 12 Months 13 - 60 Months (>1year - 5 years) Above 60 Months (Above 5 years)
Q18. What are some of the challenges that hinder growth and development of your enterprise?	Lack of enough finances Lack of access to credit Lack of market for products

	Poor financial literacy Others (Please specify)
Q19. How difficult or easy has it been accessing credit from MFIs? Q19 answers A1 & A2	Very difficult Difficult Neither difficult or easy Easy Very easy
Q20. How would you rate business performance after accessing a loan?	Much better Better Has remained the same Worse Much Worse
I am going to ask you questions on aspects of financial capability.	
Q21. Have you had any form of financial literacy training for your business? Q21 answers B1	Yes No
Kindly rate yourself according to the following parameters:	
Q22. Rate the extent to which your knowledge in finance has been useful in helping you run the business?	*Very poor* *Poor* *Average* *Good* *Very good*
Q23. Categorize yourself in terms of how you handle your debt *Q23 answers B2*	*Very poor* *Poor* *Average*

	Good *Very good*
Q24. Rate yourself in terms of cash flow management of the business? *Q24 answers B3*	*Very poor* *Poor* *Average* *Good* *Very good*
Q25. Categorize yourself in terms of how you budget and make projections for the business? *Q25 answers B4*	*Very poor* *Poor* *Average* *Good* *Very good*
Q26. Rate your ability to save business income? *Q26 answers B5*	*Very poor* *Poor* *Average* *Good* *Very good*
Q27. Rate your understanding of writing a business plan? *Q27 answers B6*	*Very poor* *Poor* *Average* *Good* *Very good*
I am going to ask you questions on your business performance.	
Q28a. INCREASE IN SALES - How would you rate your increase in sales?	*Very poor*

Q28a answers C1	*Poor* *Average* *Good* *Very good*
Q28b. ASSET GROWTH - How would you rate your growth in assets? *Q28b answers C2*	*Very poor* *Poor* *Average* *Good* *Very good*
Q28c. EMPLOYMENT - What is the degree of employment increase in the business? *Q28c answers C3*	*Very poor* *Poor* *Average* *Good* *Very good*
Q28d. PROFIT - How would rate the business profit level? *Q28d answers C4*	*Very poor* *Poor* *Average* *Good* *Very good*
We have come to the end of our interview. Thank you so much for your time.	