

CHAPTER FIVE

CONCLUSION, RECOMMENDATION AND LIMITATION

5 Introduction

Chapter five consists of the conclusion, recommendation and the limitation of the research. The conclusion consists of the summary of the research, finding and supportive analysis of how small and medium enterprises can ably access finance given the various options available.

The recommendations set a clear term of how the options available in the research can be maximized to ease the problem of small and medium enterprises access to finance. These recommendations, if implanted, will help fill the gap of access to finance problem facing SMEs.

The limitation of the study revealed the difficulties the researcher faced during the study. It also include what the researcher did not achieved doing as a result of limited time, limited resources and difficulties in accessing information.

5.1 Conclusion

The study provided a concise discussion on access to finance issues. Issues surrounding the definition and measurement of access to finance were discussed. Furthermore, the research provided the financial gap analysis, whose foundation has been discussed in this study with specific reference to Stiglitz and Weiss (1981)'s credit rationing theory. Gaps in financial access has been noted and discussed, including reasons and attempts to close these gaps.

The study revealed that SMEs are victims of the credit rationing behaviors

of financial services provider and hence face challenges in their attempts to access credit financing. Therefore resolutions by both the private and public sector to address these challenges should be sought. One such notable attempt is in the form of both private and public institutional arrangements supported by the central government in Liberia in the form of BDSs. The central government must work hand in hand with the private sector financial services provide to curb the problems facing SME sector in terms of access to financing. The effectiveness of these business development services (BDs) and government subsidies in addressing access to finance challenges facing SMES is a controversial issue that needs to be empirically investigated. It is therefore paramount to assess the effectiveness of the policy recommendations in the Liberian literature as well as monitor progress in as far as improving access to finance by SMEs is concerned.

Furthermore, findings from the study indicates that lack of collateral is the paramount obstacles why small and medium enterprises find it difficult to access finance even when financial institutions are available to provide financial services. Therefore, the real problem facing SMEs in accessing finance is not that funds are not available, but that small and medium enterprises in most cases fall short of credit worthiness. Solution to this problem requires softening credit policies, improving enterprise skills and managerial practices as a trade-off for collateral.

Finally, the development of the small and medium enterprise requires collaborative effort from both financial institutions and government. Although, investing in small and medium enterprise is highly risk, SME are potential based for banks. Given that high risk is equal to high return, banks stand the chance of benefiting if their invest more in small and medium enterprise which are said to be

highly risk. The question is whether SMEs are able to pay the high cost of the risk associated with such risky decision.

5.2. Recommendations

Based on the findings from the study, the Liberian small and medium enterprise has a long way to go in resolving access to finance problem. However, the following steps are recommended in order to provide a lead way in providing solution the difficulties faced by small and medium enterprises in accessing finance.

That the collateral registry program instituted by the Liberian government be reinforced across the country. This will capacitate SMEs to have the opportunities of formally registering their assets in order to meet banks credits requirements.

That collateral such as land, house and other personal belongings be included in the policy framework of the collateral registry program. This is intended to enable SMEs at all level to participate in the process of accessing finance from banks and other financial institution.

That the Liberian government design a subsidy program by depositing a said amount in each financial institution to serve as guarantee for SMEs borrower to ease the burden of collateral. Said policy should be by government to ensure that they are implemented. This recommendation is met to create uncollateralized borrowing system to be channel through government. Furthermore, the recommendation is to ensure that government, financial institutions and SMEs adopt a venture capital investment style to boost the development and growth of SMEs in Liberia.

5.3. Limitation of the Study

The study is marked with series of limitations ranging from data collection, scope, time and resources. However, these limitations did not cause the researcher to deviate from the purpose of the research.

The survey approach of data collection method adopted by the researcher met series of challenges. Financial institutions and banks selected for the study could not produce the required data except for access bank Liberia. More besides, access bank could not provide the researcher a raw data on SMEs profile update except those that have already been analyzed by the bank. Consequently, the data provided in this study was retrieved from access bank Liberia data based department.

The study was also limited to small and medium enterprises in Liberia as proved for in access bank Liberia data based. Small and medium enterprises order than those in Liberia will not considered in this study but where referred to as a means of comparison in the literature.

The timing of the study was very short. Two months period was used to do the study. The constraints of this were that the researcher was not able to wait until getting other SMEs credit profile data from other financial institutions/banks, and could not gather information from SMEs owners.

The limitation of Literature of small and medium enterprises greatly hampered the researcher providing lengthy information of relative to SMEs problems in general. The literature on SMEs in Liberia is limited, and there are not adequate publications on SMEs in term of government policies. Consequently, much information was not made available.

REFERENCES

Alfo, and Trovato, (2006), Credit rationing and the financial structure of Italian small and medium enterprises. CEIS Tor Vergata-Res. Paper Series, 27(80): 1-20.

Bester (1985). Screening VS. Rationing in Credit Market with Imperfect Information, *The American Economic Review*, Vol. 75, N4, PP.850-855

Bester (1987). The Role of Collateral in credit market with Imperfect Information, *Americana Economic Review*, Vol 31, N4, PP 887-899

Besanko and Thakor (1987 a). Competitive Equilibrium in the Credit Market Under Asymmetry Information. *Journal of Economic theory*, Vol. N1, PP 167-182

Beck, Demirguc-Kunt, and Levine (2005), Finance, firm size and growth. World Bank Policy Research Working Paper No. 3485

Besanko and Thakor (1987b). Collateral and Rationing: Sorting Equilibrium in monopolistic and Competitive Credit Market, *International Economic Review*, Vol N3, PP 671-689

Boot (1985). Secured lending and default Risk; Equilibrium Analysis, Policy Implications and Empirical Results

Budulescu (2011). Collateral in SME Lending: Banks Requirement VS. Customers Experience.

Budulescu, D., Badulescu, Alina (2010). Finance Constraint Facing SMEs: Some Theory and Evidence, *Mer\alurgia International*, Vol XV, Special Issue No. 8

Budulesu (2010). SMEs Financing: The Extent of Need and the Responses of Different credit Structures

Brierley, N., (2001) The financing of technology-based small firms: A review of the literature *Bank England Quarterly Bull.*, London, Spring, 41(1): 64-78.

Churchill, and Frankiewicz, 2006. Making Microfinance Work: Managing for Improved Performance, International Labour Office. Geneva.

CHF International, <http://www.chfinternational.org/Monrovia>
International Finance Corporation, World Bank Group, Driving SMEs growth in Monrovia

Deakins, D., D. North, R. Baldock and G. Whittam, 2008. SMEs' Access to Finance: Is there still a debt finance gap? Belfast: Institute for Small Business

&Entrepreneurship.

Driving SMEs growth in Liberia, **JasonHopps**, jhopps@ifc.org

Equinox Management Consultants Ltd., (2002). Gaps in SME Financing: An Analytical Frame Work: Public Works and Government Services Canada, Ottawa.

Freear and Wetzed (1988).Analysis and Non-Angles.

Foxcroft, Wood, Kew, Herrington and Segal, (2002). Global Entrepreneurship Monitor: South African Executive Report, Graduate School of Business: University of Cape Town.

Ganbold, (2008).Improving Access to Finance: International Good Experiences and Lessons for Mongolia, Institute of Development Economics, Tokyo.

Green, (2003). Credit Guarantee Schemes for Small Enterprises: An Effective Instrument to Promote Private Sector-Led Growth? SME Technical Working Paper No. 10. Vienna: UNIDO.

Gorlorwulu (2011). Constraint to Domestic Enterprise Financing in Post Conflict Liberia, *Working paper 260*

Holtmann, Rühle and Winkler, (2000). SME Financing: Lessons from Microfinance. *SME Issues*, 1(1): 8-25.

IBRD/World Bank, 2008. Finance for all? Challenges and Pitfalls in Expanding Access, World Bank, Washington DC

International Finance Corporation (IFC), (2006). A Diagnostic Study on Access to Finance for Women Entrepreneurs.

Investment climate Statement – Liberia (2011)

Liberia small and Medium Enterprise assessment report, (1986)

Malhotra, Chen, Criscuolo, Fan, Hamel, andSavchenko, (2007). Expanding Access toFinance: Good Practices and Policies for Micro, Small and Medium Enterprises. Washington DC, World Bank.

Maas, and Herrington, (2006). Global Entrepreneurship Monitor: South African Report the UCT Centre for Innovation and Entrepreneurship.

Nigrini, Schoombee, (2002). Credit guarantees schemes as an instrument to promote access to finance for small and medium enterprises: Ananalysis of Khula Enterprise Finance Ltd's individual credit guarantee scheme. *Dev. South. Afr.* 19(5):735-750.

OECD,(2006). The SMEs Financing Gap Volume 1:Theory and Evidence.
Retrieved from: <http://ec.europa.eu/enterprise/newsroom/cf/document.cfm?>

Riding and Short (1988).On the Estimation of the Investment Potential of Informal Investment. A Capture – Recapture Approach, Journal of Small Business and Entrepreneurship, Vol. 5, 26-40

Rogerson, (2008).Tracking SMME development in South Africa: Issues of finance, Training and the Regulatory Environment. Arbon Forum, 19: 61-81.

Stiglitz, andWeiss(1981). Credit rationing in markets with imperfect information. *American.Econ. Rev.*,71: 393-419.

Thomas (1992),A survey of credit and behavioral scoring: forecasting financial risk of lending to consumers, *International Journal of Forecasting* 16 (2000) 149–172

Uzodike (1999), Survival Strategies for Coping with Turbulence in the Small and Medium Industry Sub-sector

QUESTIONNAIRE

This questionnaire is designed to collect SMEs loan profile and obstacles hindering SMEs access to finance in Liberia. These questions are to be responded to be banks/financial institutions

1. Name of bank (optional)_____
2. How many SMEs applied for loan in 2014 from this bank under each of the categories?
Bank loan_____
Micro-lender_____
Venture capital_____
3. How many of those that applied were successful after screening the application under each of the following categories?
Bank loan_____
Micro-lender_____
Venture capital_____
4. How many of the successful applicants accepted the offer from the bank under each of the following categories?
Bank loan_____
- Mirco-lender_____
- Venture capital_____
5. How many of the applicants did receive finance under each of the following categories?
Bank loan_____
- Micro-lender_____
- Venture Capital_____
6. What where the problem stated by any of the SMEs loan applicant?
7. What percentage of the SMEs loan applicants indicated the problems?

DATA

Access bank Liberia, Sinkor branch, Monrovia Liberia

Statistics on SME loan profile, 2014

SMEs Loan application profile	Categories on loan applied for in %		
	Bank Loan	Micro-lender	Venture Capital
SMEs loan applicants (total number of applicant in %)	100	100	100
SMEs that were successful after screening	98	82	42
Successful SMEs applicants that accepted the offer from the bank	75	50	0
SMEs applicants that receive finance	48	35	0

Source: Access bank Liberia.

NUMBER OF SMES THAT APPLIED FOR LOAN DURING THE PERIOD UNDER REVIEW

	Bank loan	Micro-lenders	Venture Capital
Total number of applicant	87,450	14,600	1,000

Source: Access bank Liberia.

PROBLEM STATED BY APPLICANTS IN THEIR APPLICATION FORM:

Problem areas	Proportion of applicants who stated the problem (%)
Inadequate financial record keeping	20
Lack of Collateral	46
Inadequate financial record and lack of collateral	12
High risk borrowers	22

Source: Access bank Liberia.