Factors Affecting Small and Medium-Sized Enterprises' Accessibility to Institutional Finance in Pakistan: Moderating Role of Government Support

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Abstract: *The study aims to explore the factors influencing the accessibility of small and medium-sized enterprises to institutional finance and moderating role of government supports in the relationship between collateral security, interest rates, financial information, business ownership, and accessibility to finance facilities in Pakistan. The moderation multiple regression analysis was applied for analysis using SMART PLS3.0 software. A fully structured questionnaire is used for gathering data or information from the respondents. The results showed that all the variables are directly and significantly influencing access to finance except interest rates, but interest rates indirectly affect the dependent. The government support does moderate in the interaction between collateral security, interest rate, and financial accessibility. On the other hand, the variable doesn't quite moderate the interaction between financial information, business ownership, and financial accessibility in Pakistan. This research aimed at making access to finance services essentially helpful to the SME industry by knowing what impacts their financial accessibility and helping lending institutions in understanding what effectively prevents the SME industry from accessing finance-related services in Pakistan.*

Keywords: *Access to finance, government support, collateral security, financial information, interest rates, business ownership.*

Introduction

Almost 90% of enterprises in Pakistan are small and medium-sized enterprises. They play an important role in most economies, particularly in developing countries like Pakistan. SMEs also contribute to providing employment opportunities. According to Blancher et al. (2019); Ghassibe, Appendino, and Mahmoudi (2019), SMEs are one of the biggest employment contributors in developing nations which are constrained by the lack of accessibility to finance. Many studies have been carried out on the significance and importance of small

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and medium businesses all over the world. In Pakistan, they face difficulties in starting up their businesses, and accessibility to finance is one of the main constraints for them. The availability and accessibility of finance are termed important elements in the growth and development of small and medium-sized enterprises (Ou & Haynes, 2006).

SMEDA (Small Medium Enterprises Development Authority) is a Pakistani government organization that has worked for development and has been helping to solve the problems of this sector for a long time. The availability of finance facilities is essential for the expansion and advancement of SMEs. Though, for most SMEs, especially those in developing economies, access to finance remains a barrier and remains the main problem in both the government and private industries. Small and medium firms can play a significant role in the growth of Pakistan.

According to SMEDA (2020) report, Pakistan's small and medium-sized firms comprise nearly 90% of total businesses, 80% of the non-agriculture workforce, and generate 25% of its export earnings. SMEs sector contributes almost 40% to Pakistan's gross domestic product (SMEDA, 2020). Unfortunately, they are constrained by financial and other sources as compared to large enterprises. SMEDA defines SME that is based on some workers or staff and a complete amount of productive resources. They are categorized into three categories. The number of workers in a micro-enterprise is 10 and the limit of their assets is 2 million, in case of small businesses number of staff is 35, and the limit of productive assets is 20 million, and on the other hand, the number of staff in medium enterprises is between 36 to 99 and the limit of assets is 40 million rupees.

Financial accessibility by SMEs was calculated by mortgage rate charges, a total number of financial firms, education level, and collateral security of 87 percent, while other variables are exempted from the paradigm and total available financial firms, level of education, and collateral security (Ndungu et al., 2016). Credible sources of fundamental investment impact affordability to fund services tailored by the purchase of fixed assets funded by and huge hurdles to the availability of medium and small-sized businesses to financial services to a good extent and then accessibility of financial information that only to a small extent impacts on the access to financial services of small and medium businesses. Funds are the lifeblood of MSEs and every undertaking. Collateral prerequisites, finance costs, and company risks also influence loan availability. Collateral requirements are among the barriers to accessibility to finance-related facilities from lending firms by SMEs, the absence of financial knowledge and information to assess finance costs is also a hindrance to financial accessibility, with high borrowing rates having an influence on finance access from financial institutions by small and medium businesses (Etemesi, 2017).

The SMEs in Pakistan has not delivered respectably well and subsequently have not played an anticipated crucial and energetic role in the financial development and economic stability of Pakistan. They contribute 40% to Pakistan's gross domestic product (SMEDA, 2020) Apart from the need for financing by SMEs, bank financing is unavailable to SMEs which causes issues for them (Ramlee & Berma, 2013). A gap is established between the provision of financial services by financial institutions and needs by SMEs. Due to the inability to acquire finance, SMEs are affecting their productivity and ability to survive (Chakraborty, 2012). There are almost 3.3 million registered SMEs in Pakistan and are confronting a bunch of issues in their affordability to funds. Financial access is a core

problem for medium and small-sized businesses. Accessibility to funds, especially in commencing a business, is among the main limitations that influence small and medium-sized businesses in Pakistan.

The ultimate objectives of the study are to explore the effect of factors variables on SMEs' access to finance and the moderating role of government support in the relationship between collateral security, interest rates, financial information, business ownership, and access to finance of SMEs in Pakistan. Another objective of the study is to help Small and medium-sized enterprises in easy and convenient availability of financial facilities.

Given the state of knowledge, our study contributes to the literature in several ways. First, the contribution of this study is to find out what factors are affecting SMEs' access to finance in Pakistan. Second, Previous studies have identified many aspects that may affect access to finance by SMEs in their respective states. But there is a need for unveiling the influence of government schemes and initiatives on these factors and their impact on accessibility to institutional finance. That's the major purpose of conducting the study in Pakistan, and to understand what aspects influence their accessibility to institutional finance in actuality. According to Hansah et al., (2013) the SMEs' significance and contributions to the prosperity of a nation are massive. SMEs have been involved in regional and national growth, aiding to speed up the industrial revolution in rural communities by attributing them to certain urban sectors.

Third, The federal government of Pakistan initiated many schemes and policies for mitigating these problems confronted by the SME sector. But, still, the major portion of these firms in the country cannot approach to technical services of finance provided by monetary institutions. Many aspects need to be addressed and understand. The most essential aspects that influence SMEs' accessibility to finance include high-interest rate charges, collateral security, financial information, business ownership, and business support for the development of the SME industry in Pakistan by the federal state of Pakistan. There is a need for the question to be answered, does the government support help small and medium-sized enterprises in accessing financial finance services in Pakistan?

According to Asongu, Nnanna, and Acha-Anyi (2020), the financing of small and medium enterprises has gained the attention of many researchers and policymakers. So, this study will help financial institutions, as it will help them in reviewing their finance provision policies. The results of the study will provide government agencies that are making policies for the benefits of SMEs in providing financial facilities or supporting them in acquiring finances from lending institutions. After identifying the possible factors which are hindering SMEs in acquiring financial facilities from financial institutions, we will be able to find out the solutions for the problems faced by SMEs in Pakistan.

Literature Review and Hypothesis Development

According to Harith and Samujh (2020), accessibility to finance or credit is one of the major constraints to the development of SMEs. Moro Visconti (2019) stated that globally, almost 200 million SMEs exist without access to the financial services of banks. Asongu et al. (2020) conducted a study and suggested that small and medium enterprises have gained

the attention of many researchers and attracted them for further studies.

Collateral security is one of the components which keep young entrepreneurs from getting to finances. They have little assets and resources that are lacking and now and again unsuitable as security for finances by monetary firms. According to Muratha (2015) security gives an edge to reimburse and counterbalance misfortunes if there should arise an occurrence of a default. Guarantee decreases the danger of an advance by giving the monetary firm's case on a substantial resource without reducing its claim on the remaining finance. Young business visionaries confront numerous issues. Security accessibility assumes an enormous task in preparing lending institutions to meet private sector needs. Accordingly, the following hypothesis is stated:

H1: There is an effect of collateral security on access to finance of SMEs in Pakistan.

Interest costs as an expense of the finance significantly affect an organization's development designs. They influence finance installments, as well as affect venture funding (Mira & Kennedy, 2013). Different difficulties cited by the respondents incorporate, underwriter's necessity, lengthy paperwork, recordkeeping as a major aspect of the precondition, and money related to the firm's absence of trust in the youngsters (Sharu & Guyo, 2015). Financing costs are extremely higher in creating nations particularly, on miniaturized scale attributes because of the higher managerial expenses to their size of activities (Sacerdoti, 2005). Accordingly, the following hypothesis is stated:

H2: There is an effect of interest rates on access to finance of SMEs in Pakistan.

Financial information of an undertaking was observed to be a similarly imperative factor positively affecting SMEs' approach to bank finances. The investigation discoveries confirm a favorable connection between the information level of SMEs and their openness to institutional advances (Palliam, 2005; Moro, Fink, & Kautonen, 2014). Lack of economic information frequently solves the problems of the absence of accessibility to money-related facilities, including finance or failure to use them, regardless of when accessible. Beck, Demirgüç-Kunt, Laeven, and Maksimovic (2006) argued that if people aren't comfortable with products, they're not going to ask for them. Accordingly, the following hypothesis is stated:

H3: There is an effect of financial information on access to finance of SMEs in Pakistan.

National financial institutions are bound to seek more information, preferable requirement components over the international claimed banks, and outside institutions might be eager to loan to misty borrowers. In Bangladesh, the study explained that 70 percent of SMEs were certified as single-ownership, and 30 percent of partnership type. In another examination, 40 percent of SMEs were of partnership type and 50 percent single-ownership undertakings (Chowdhury, Azam, & Islam, 2013). Beck et al. (2006) uncovered that local enterprises and foreign enterprises confront decreased financing requirements. Depth of credit information, firm size, and business ownership significantly affected the accessibility

to financing by SMEs in the West African region (Quartey, Turkson, Abor, & Iddrisu, 2017). Accordingly, the following hypothesis is stated:

H4: There is an effect of business ownership on access to finance of SMEs in Pakistan.

The government of Pakistan is helping the sector in many aspects, but still, there is a need to review the initiatives of the government to support the sector. The arrangements for SMEs to switch from country to country as well as from developed nations to emerging countries owing mainly to industrialization, social agreements, and enterprise settings dimensions (Eniola, Entebang, et al., 2015). Federal states of most nations, particularly growing countries have put such a significant number of attempts and assets in setting up strategies designed for enhancing enterprise and SMEs. Nonetheless, past examinations showed that general government assistance for firms insufficient in Africa in situations where these projects persist is not fully utilized (Fatoki & Asah, 2011; Olawale & Garwe, 2010). Government schemes and support influence business enterprise advancement straightforwardly and in an indirect way. As stated by Bhat and Khan (2014), the government through its laws, directions, speculations, and different strategies makes a significant effect on where entrepreneurs set up new undertakings and the likelihood that those enterprises will flourish. Given that based on prior studies relating to moderating variable government support we propose the following hypotheses:

H5: There is an effect of Government support on access to finance of SMEs in Pakistan.

H6: There is a moderating effect of government support in the relationship between collateral security and access to finance of SMEs in Pakistan.

H7: There is a moderating effect of government support in the relationship between interest rates and access to finance of SMEs in Pakistan.

H8: There is a moderating effect of government support in the relationship between financial information and access to finance of SMEs in Pakistan.

H9: There is a moderating effect of government support in the relationship between business ownership and access to finance of SMEs in Pakistan.

The constrained accessibility to financial services has been ascribed to elements, for example, the absence of the guarantee, high hazard profile of SME, and banking part and inclination by commercial firms against the SME (Waita, 2012). Financial firms in most African nations have attempted to reach SMEs because of challenges in controlling finances especially screening and observing little scale borrowers staggering the expense of overseeing advances and high danger of default. Concurrent findings suggest that experienced borrowers can generate further money than youth and they perceive responsibility regarding finance (Berhanu, 2005; Godquin, 2004). The banks and small-scale financial associations that offer finance to youthful business people get clients naturally because of

the rate of unemployment situation prevailing in the country.

Methodology

The purpose of the study is exploratory. The moderation multiple regression analysis is applied to analyze obtained information. For this specific study, the method used is the survey method. A research survey is considered the most common and famous approach that is used in administration research. In a research survey approach, a questionnaire is used for gathering data and information still personal judgments and meetings as well used for collecting data (Saunders, Lewis, & Thornhill, 2009). A fully structured questionnaire is adapted from previous studies used for gathering data or information from the respondents. The instrument was adapted from Nanyondo (2017). The unit of analysis is individuals from where data is gathered. For research purposes, the information or data is collected from owners and financial officers or managers of Pakistan's SMEs. A multistage sampling technique is undertaken in this analysis to identify the study's renowned respondents. There are some reasons behind choosing this technique for sampling, for example; when the total population is scattered and when constructing a huge sampling structure is expensive enough. SMART PLS3.0 software is used for analysis. A total number of a questionnaire distributed among the different SMEs are 260 which is 10 more than the required number of sample size. Apart from a total of 260, only 234 questionnaires were preferred for testing the hypotheses developed by the researcher for concluding the study. So, the response ratio is 90% from the respondents of the study which is a considerable success as they provide their precious time in dressing the questionnaire.

Data Analysis and Results

A total of 260 questionnaires was scatted among the respondents of the study. Out of which 245 were returned filled from the respondents. Out of the total responses received, 7 were not fully answered or incomplete and 4 were discarded by the researcher due to non-serious and pointless answering to the questions asked in the questionnaire. The response rate of the questionnaire was excellent because it is 94%. But the total rate which was considered for the final research was 90

Construct Reliability

Table 1, gives the findings of the variable-wise construct reliability. The value of Cronbach's alpha value is being used to explore the instrument's reliability. The range of the value is from 0 to 1. A high value or close to 1 is highly reliable and it is not acceptable to have less than 0.70. The findings reported in the table precisely display the reliability of the variables. Of all six variables, the value of Cronbach's alpha is higher than 0.70. The value of variable access to finance is 0.862 which is greater than 0.70, similarly, the values of other constructs are also above 0.7.

Table 1
Construct Reliability

Variables	Cronbach's Alpha
Access to Finance	0.862
Business Ownership	0.735
Collateral Security	0.772
Financial Information	0.843
Government Support	0.769
Interest Rates	0.843

Composite Reliability

The composite reliability of the construct is known as the estimation for the variable's internal consistency. To achieve internal consistency, the value should be higher than 0.70. Table 2 indicates that all the constructs access to finance (0.900), business ownership (0.803), collateral security (0.855), and financial information (0.892), Government support (0.852), and interest rates (0.894) have a greater value of internal consistency as contrasted to the benchmark value of reliability.

Table 2
Composite Reliability

Variables	Composite Reliability
Access to Finance	0.900
Business Ownership	0.803
Collateral Security	0.855
Financial Information	0.892
Government Support	0.852
Interest Rates	0.894

Convergent Validity

The convergent validity is additionally vital notwithstanding discriminant validity. The validity may be analyzed by estimations of each loading. In case that the values are greater and pretty much comparative, convergent validity can be set up. The analyst needs to inspect the AVE to check the convergent validity. In Table 3. the AVE values for all variables are in the satisfactory range (AVE>0.50) as recommended. Therefore, the AVE value must exceed 0.50. The values of all six variables exceed the threshold value which is 0.50.

Table 3
Convergent Validity

Variables	Average Variance Extracted (AVE)
Access to Finance	0.644
Business Ownership	0.505
Collateral Security	0.598
Financial Information	0.679
Government Support	0.590
Interest Rates	0.678

Discriminant Validity

In reflective estimation models' validity appraisal centers around discriminant and convergent validity. The square base of the AVE value ought to be higher when contrasted with the connections of the variables with every single other construct in the structural model. Discriminant validity is tested over the Hetrotrait-Monotrait proportion. An estimation of under 0.90 is demonstrative of the discriminant validity of variables. Table 4 demonstrates that every one of the values is underneath the threshold (HTMT<0.90) value. The table indicated that the HTMT values of all six variables are less than the benchmark of 0.90.

Table 4
Discriminant Validity

	Access to Finance	Business Ownership	Collateral Security	Financial Information	Government Support
Access to Finance					
Business Ownership	0.270				
Collateral Security	0.703	0.138			
Financial Information	0.335	0.170	0.265		
Government Support	0.497	0.147	0.550	0.108	
Interest Rates	0.504	0.200	0.739	0.158	0.547

Model Evaluation: Structural Model Findings

The next step after the appropriate measures are established is to give proofs (statistical) for the model (theorized). This part first is to check whether there is a collinearity problem that arises or not, assessing the outer loadings of the model, and model fitness. In the end, the path analysis of both multiple (without a moderator) and moderation models are examined and testing the hypotheses developed for the study.

Assessment of Outer Loadings

After analyzing the inner VIF values to inspect collinearity issues in the model, the outer loadings in the model need to be statistically significant. The significance of the outer model is checked by assessing T values in the outer loadings table 20 shown below. The threshold for the outer model assessment is that the values should be greater than 0.70 but the value should not be less than 0.60. All the values in table 5 are greater than 0.60 which indicates that all the structural model loadings are significant statistically.

Table 5
Assessment of Outer Loadings

Items	AC	BO	CS	FI	GS	IR
1	0.812	0.647	0.658	0.845	0.831	0.873
2	0.751	0.703	0.847	0.921	0.734	0.740
3	0.821	0.731	0.751	0.885	0.781	0.831
4	0.827	0.757	0.822	0.609	0.723	0.845
5	0.797	-	-	-	-	-

Assessment of Collinearity Issue

The very first stage in the assessment of the structural model is the evaluation of collinearity There must not be a collinearity issue among the constructs of the model. Table 6 indicated the inner VIF (Variance Inflation Factor) values of variables. The value must be less than 5 and higher than the threshold indicates that among the variables there is a problem of collinearity. All VIF values are less than 5 in Table 6, which demonstrates that there is no issue of collinearity.

Table 6
Inner VIF Values

	Access to Finance
Access to Finance	
Business Ownership	1.068
Collateral Security	1.666
Financial Information	1.071
Government Support	1.317
Interest Rates	1.697

Assessment of Model Fitness

The SMART PLS-SEM calculated the standardized root mean square residuals (SRMR) value as suggested to evaluate the model fitness. The value of SRMR should be nearer to zero.

The normed fit index (NFI) value should be closer to 1. In table 7, the SRMR value which is 0.086 nearer to zero and the NFI value which is 0.688 that is near to 1 shows the fitness of the model.

Table 7
Model Fitness

	Saturated Model	**Estimated Model**
SRMR	0.086	0.086
NFI	0.688	0.688

PLS Path Model Analysis

### Direct and Indirect Relationship (With and Without Moderator)

The following figure 1 represents the structural model with and without the moderating variable. In this model access to finance is the dependent variable and collateral security, interest rates, financial information, business ownership, and government support are independent variables. The arrows represent the relationship of variables with each other.

There are two portions of the structural model, the first one is the inner model and the second is the outer model. In the outer model of figure 1 item-wise T values are shown and in the inner model there are path coefficients and the significance p-value is shown. The first and foremost step is to run the PLS Algorithm after that bootstrapping analysis is performed using 2500 sub-samples to evaluate the direct impact of variables on accessibility to finance. It is crucial calculating the direct effect of collateral security, interest rates,

financial information, business ownership, and government support on access to finance before analyzing the moderating function of government support on the interaction between dependent and independents.

The following figure 1 also represents the structural model path analysis with the government support variable as moderating function. This is the structural model of the research. In figure 1 results show that there are four more interaction variables are generated with the help of each independent construct in the study. CS is representing collateral security, IR is representing interest rates charged, FI stands for financial information, BO stands for business ownership, and GS means government support which is the moderating variable of the study. Additional four variables have been generated to see the moderation effect of government support (GS*CS, GS*IR, GS*FI, GS*BO). In values shown in the inner model are path coefficients and p values, and in the outer model, the shown values are t statistics. The arrow's direction demonstrates the connection between the constructs in the study's structural model.

Figure 1
Path Analysis Direct and Indirect Relationship
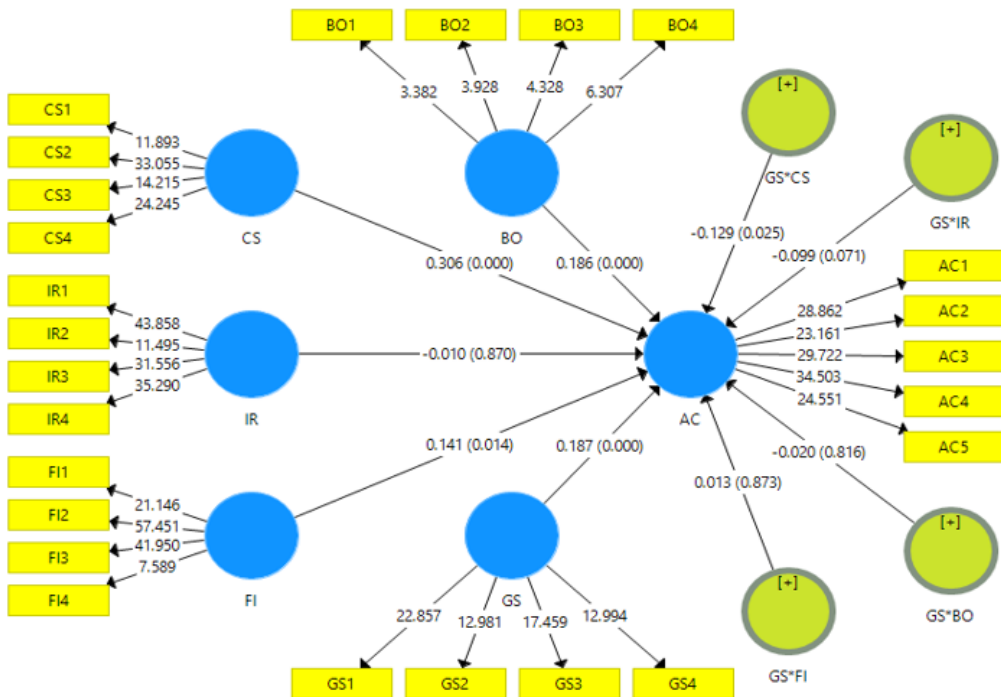
The results of all nine hypotheses are shown in table 8 one by one. The table of indirect path coefficients demonstrates the structural model's P-values and T-statistics. Results on the table indicate that collateral security has a substantial positive influence on financial accessibility (p-value 0.000<0.05). The outcomes showed there is no impact of interest rates

on financial accessibility as the p-value is 0.870 greater than 0.05 or 0.10. But, government support moderates between interest rates and financial accessibility variables with 0.071 (0.071<0.10).

There is only one moderator in this study which is government support. Results shown in table 8 suggest that government support did not moderate between financial information, business ownership, and financial accessibility. But it has a moderating impact on the connection between collateral security, interest rates, and financial accessibility. The findings explain the considerable positive influence of financial information on financial accessibility with 0.014 (0.014<0.05). Business ownership has a considerable positive influence on financial accessibility by 0.186 with a significance level of 0.000. Similarly, government support has a considerable positive influence on financial accessibility with 0.000 (0.000<0.05). The value 0.025** (0.025**<0.05) of H6 indicates that government support has a moderating impact on the link between collateral security and financial accessibility. Similarly, 0.071 (0.071*<0.10) of H7 demonstrates government support has a moderating influence on the link between interest rates and financial accessibility.

Table 8
Direct and Indirect Path Coefficients

	Hypotheses	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Value	P Values
H1	Collateral Security - >Access to Finance	0.306	0.277	0.077	3.951	0.000
H2	Interest Rates - >Access to Finance	-0.010	-0.022	0.063	0.164	0.870
H3	Financial Information - >Access to Finance	0.141	0.151	0.057	2.471	0.014
H4	Business Ownership - >Access to Finance	0.186	0.178	0.047	3.980	0.000
H5	Government Support - >Access to Finance	0.187	0.187	0.053	3.547	0.000
H6	Government Support*Collateral Security - > Access to Finance	-0.129	-0.131	0.057	2.238	0.025
H7	Government Support*Interest Rates - > Access to Finance	-0.099	-0.124	0.055	1.806	0.071
H8	Government Support*Financial Information - > Access to Finance	0.013	0.014	0.084	0.160	0.873
H9	Government Support*Business Ownership - > Access to Finance	-0.020	-0.008	0.086	0.233	0.816

Discussion and Conclusion

This can be argued that collateral security has been one of the major variables for SMEs' access to finance facilities from financial institutions. The greater part of the SME proprietors doesn't have an adequate guarantee which is a noteworthy prerequisite for financial accessibility. SMEs experience issues of raising capital, getting to fund, and getting to finance. Most of the organizations get start-up funds from sources other than financial institutions. The outcomes of the hypothesis related to financial information and access to finance show that financial information positively influences financial accessibility in Pakistan. The results are also supported by the studies of Rudež and Mihalič (2007); Shane and Stuart (2002) who explained that the variable is positively associated with access to finance. The business ownership hypothesis shows a considerable positive influence on financial accessibility. The results suggest enterprises with a legal status separate and distinct from their members are important in access to finance These obtained results are agreeable with Beck et al. (2006).

The findings support the literature that collateral security significantly affects SMEs' financial accessibility. So, higher collateral security higher financial accessibility. Insufficient evidence was found from the study conducted on the influence of interest rates on SMEs' financial accessibility. In Pakistan, SMEs don't think interest rates matter in accessing finance. However, previous literature support that interest rates negatively impact financial accessibility which means an addition in interest rates by lending firms or institutions decreases access to finance or finance. But when the government support interrupts variable findings shows that interest rates significantly negatively affect the SMEs' financial accessibility in Pakistan. As the lending firms increase the required higher interest rates it hinders the accessibility to financing facilities. So, the outcomes of the research support the past research results. In Table 8, the result of the first hypothesis shows an extremely considerable positive relationship with access to finance that supports the existing literature which shows a considerable positive connection between variables, The outcomes are akin to the outcomes of Fatoki and Asah (2011). The outcomes have also supported the findings of Bougheas, Mizen, and Yalcin (2006). Unfortunately, the researcher failed to find enough evidence of the influence of interest rates on financial accessibility. While in previous studies, significant evidence has been found of a negative influence of interest rates on financial accessibility.

The finding of the research concluded that government support does not influence the relationship between financial information, business ownership, and SMEs' financial accessibility in Pakistan. The moderating variable does moderate the connection between collateral security and financial accessibility in Pakistan. Government support as a moderating variable does moderate the relationship between interest rates and SMEs' financial accessibility in Pakistan. Considerable evidence suggests that government policies and schemes which are supporting and help the SME sector, in actually working properly. But, still, there is a need for improvement in this regard. The government should start working on providing financial information and should make lenient policies regarding the ownership type of the business or undertakings. The federal-state should help SME firms in mitigating hurdles in accessing financial services or products like finances.

Future Recommendations

The current study is limited to SMEs in Lahore, Faisalabad, Sialkot, and Mandi Bahauddin cities of Pakistan. The study ought to be conducted on SMEs in other different cities in the country of Pakistan. The study is all about accessibility to the finance of SMEs in Pakistani sectors like large corporations and public limited firms can be selected as respondents for future studies. Future research ought to be conducted in a longitudinal time horizon for data rather than a cross-sectional time horizon.

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