INTERNATIONAL JOURNAL OF
SOCIAL SCIENCES BULLETIN
ISSN: (E) 3007-1917 (P) 3007-1909

Volume 3, Issue 12, 2025

DOES ACCESS TO FINANCE DRIVE MSME GROWTH? THE MEDIATING ROLE OF BUSINESS DEVELOPMENT SERVICES: EVIDENCE FROM A LARGE-SCALE SURVEY IN THE GAMBIA

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DOI: https://doi.org/10.5281/zenodo.19364042

Received	Accepted	Published
17 October 2025	28 November **2025**	15 December 2025

ABSTRACT

This study examines the relationship between access to business finance, business development services (BDS), and MSME growth in The Gambia, with a particular focus on the mechanisms through which financial access translates into firm performance. Moving beyond conventional approaches that emphasize direct effects, the study adopts a causal mediation framework and constructs composite indices to capture the multidimensional nature of financial access, firm capabilities, and growth outcomes.

Using a nationally representative dataset of 3,083 MSMEs, the analysis employs a micro-econometric approach combining Ordinary Least Squares estimation with bootstrap-based mediation analysis to identify both direct and indirect effects. The results show that access to finance has a positive and statistically significant effect on MSME growth. In addition, financial access significantly increases firms' access to business development services, indicating that financially enabled firms are more likely to invest in capability-enhancing interventions.

The findings further reveal that business development services exert a strong positive effect on firm performance and play a significant mediating role in the finance–growth relationship. Approximately 44% of the total effect of financial access on MSME growth operates through BDS, highlighting the importance of capability development as a transmission mechanism. This suggests that financial capital alone is insufficient to drive firm performance; rather, its effectiveness depends on complementary institutional and managerial support.

The study contributes to the literature by integrating financial access and firm capabilities within a unified analytical framework and providing novel micro-level evidence from a small developing economy. The findings have important policy implications, emphasizing the need for integrated MSME support strategies that combine financial inclusion with business development services to enhance firm performance and economic growth.

Key words: *MSMEs; Access to Finance; Business Development Services; Firm Growth; Causal Mediation; Capability Development; The Gambia*

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are widely recognized as critical engines of economic growth, employment generation, and poverty reduction, particularly in developing economies. In Sub-Saharan Africa, MSMEs account for a substantial share of private sector activity and employment, yet their growth potential remains persistently constrained by structural and institutional barriers. Among these, limited access to finance has consistently been identified as one of the most significant obstacles to firm expansion, innovation, and competitiveness (World Bank, 2023; International Finance Corporation [IFC], 2021).

Access to finance plays a central role in enabling firms to invest in productive assets, adopt new technologies, and scale operations. However, emerging evidence suggests that the relationship between financial access and firm growth is neither linear nor automatic. In many developing country contexts, MSMEs often lack the managerial capabilities, strategic orientation, and technical knowledge required to effectively utilize financial resources. As a result, increased access to finance does not always translate into improved firm performance, raising important questions about the mechanisms through which financial resources influence enterprise growth (Beck, Demirgüç-Kunt, & Singer, 2021; OECD, 2022).

In response to these limitations, increasing attention has been directed toward the role of Business Development Services (BDS) as a complementary mechanism that enhances firm capabilities. BDS encompass a wide range of support services, including training, advisory services, financial literacy programs, and market linkage facilitation. These services are designed to strengthen managerial competencies, improve decision-making, and enhance the ability of firms to allocate resources efficiently. Recent studies highlight that capability-enhancing interventions such as BDS are essential in bridging the gap between financial access and firm performance, particularly in resource-constrained environments (Cirera, Comin, & Cruz, 2022; McKenzie, 2021).

Despite this growing recognition, the role of BDS in the finance–growth nexus remains underexplored in the empirical literature. Most existing studies focus on the direct impact of financial access on firm performance, with limited attention to the intermediate processes through which finance influences growth outcomes. This gap is particularly pronounced in Sub-Saharan Africa, where institutional constraints, information asymmetries, and capacity limitations are more acute. Understanding whether and how BDS mediate the relationship between finance and MSME growth is therefore critical for both theory and policy.

The Gambian context provides a unique and relevant setting to examine this relationship. As a small developing economy with a vibrant but constrained MSME sector, The Gambia faces many of the structural challenges common to Sub-Saharan Africa, including limited access to formal finance, capacity gaps among entrepreneurs, and an evolving institutional support framework. At the same time, recent policy efforts have increasingly emphasized the importance of MSMEs as drivers of inclusive growth and economic transformation.

This study addresses the existing gap by examining the mediating role of business development services in the relationship between access to finance and MSME growth in The Gambia. Using a large-scale, nationally representative dataset of over 3,000 MSMEs, the study adopts a micro-econometric approach to provide robust empirical evidence on the mechanisms linking financial access to firm performance.

The study contributes to the literature in three key ways. First, it advances the finance–growth literature by incorporating a mediation framework that explicitly models the role of BDS as a transmission channel. Second, it provides novel micro-level evidence from a relatively under-researched context, thereby enriching the empirical literature on MSMEs in Sub-Saharan Africa. Third, it offers policy-relevant insights into the design of integrated support systems that combine financial access with capability development to enhance MSME performance.

2. Literature Review

2.1 Theoretical Foundations

This study is anchored in the Resource-Based View (RBV) and financial constraints theory, which together provide a comprehensive framework for understanding the relationship between access to finance, business development services, and MSME growth.

The Resource-Based View posits that firm performance depends on the effective deployment of internal resources and capabilities, including financial capital, managerial skills, and organizational competencies. According to RBV, access to resources alone is insufficient; rather, competitive advantage arises from the ability of firms to utilize these resources efficiently and strategically (Barney, 1991; Kraus et al., 2020). In the context of MSMEs, this implies that financial resources must be complemented by managerial and technical capabilities to generate growth.

Financial constraints theory emphasizes that limited access to external finance restricts firm investment, innovation, and expansion. In developing economies, MSMEs often face significant credit constraints due to information asymmetries, lack of collateral, and underdeveloped financial markets (Beck et al., 2021). While improving access to finance is expected to stimulate firm growth, recent studies suggest that financial access alone may not be sufficient if firms lack the absorptive capacity to utilize these resources effectively (Demirgüç-Kunt, Martínez Pería, & Tressel, 2020).
Business Development Services (BDS) play a critical bridging role between these two theoretical perspectives. By enhancing managerial capabilities, improving financial literacy, and facilitating market access, BDS strengthen firms' ability to convert financial resources into productive investments. As such, BDS can be conceptualized as a capability-enhancing mechanism that mediates the relationship between financial access and firm growth.

2.2 Access to Finance and MSME Growth

The relationship between access to finance and firm growth has been extensively examined in the literature. Financial access enables firms to invest in capital, adopt new technologies, and expand production, thereby enhancing productivity and competitiveness. Recent empirical evidence confirms that improved access to finance is associated with higher firm growth, innovation, and employment creation, particularly in developing economies (Beck et al., 2021; World Bank, 2023).
However, the strength and consistency of this relationship vary across contexts. Some studies find that while access to finance improves firm survival, its impact on growth is conditional on firm characteristics such as size, sector, and managerial capacity (IFC, 2021; OECD, 2022). In particular, MSMEs with limited managerial skills or weak organizational structures may struggle to translate financial resources into productive outcomes.
This suggests that the finance–growth relationship is not purely direct but may depend on complementary factors that enhance firms' ability to utilize financial resources effectively.

2.3 Business Development Services and Firm Performance

Business Development Services (BDS) have increasingly been recognized as a key driver of MSME performance. BDS include training programs, advisory services, mentorship, and support for market access and innovation. These services aim to enhance managerial capacity, improve business practices, and strengthen firms' competitive position.
Recent studies highlight that BDS interventions can significantly improve firm outcomes, including productivity, sales growth, and profitability. For example, McKenzie (2021) finds that training and advisory programs can lead to measurable improvements in firm performance, particularly when combined with financial support. Similarly, Cirera et al. (2022) show that capability-building interventions play a crucial role in enabling firms to adopt new technologies and improve operational efficiency.
However, the effectiveness of BDS is not uniform across contexts. Some studies report limited or mixed effects, suggesting that the impact of BDS depends on factors such as program design, firm characteristics, and the broader institutional environment (Grimm & Paffhausen, 2021). This indicates the need for a more nuanced understanding of how BDS interact with other factors, particularly financial access.

2.4 The Mediating Role of Business Development Services

While the independent effects of finance and BDS on firm performance are well documented, there is limited empirical evidence on how these factors interact. In particular, the mediating role of BDS in the finance–growth relationship remains underexplored.
From a theoretical perspective, BDS enhance firms' absorptive capacity, enabling them to utilize financial resources more effectively. Financial access may increase the demand for BDS, as firms seek to improve their managerial capabilities and strategic decision-making. In turn, BDS enable firms to allocate financial resources more efficiently, thereby enhancing growth outcomes.
Recent studies provide indirect support for this mechanism. For instance, evidence suggests that firms receiving both financial support and

capacity-building interventions tend to perform better than those receiving either intervention alone (McKenzie, 2021; Cirera et al., 2022). However, few studies explicitly model BDS as a mediating variable, particularly using large-scale micro-level data in developing country contexts. This represents a critical gap in the literature, especially in Sub-Saharan Africa, where both financial constraints and capacity limitations are pervasive.

2.5 Research Gap and Contribution

Despite the extensive literature on MSMEs, three key gaps remain.

First, most studies focus on the direct relationship between finance and growth, with limited attention to the mechanisms through which financial access translates into firm performance. This limits our understanding of why financial interventions sometimes fail to generate expected outcomes.

Second, while BDS have been shown to improve firm performance, their role as a mediating mechanism linking finance to growth remains underexplored. Existing studies often treat finance and BDS as independent factors rather than interrelated components of a broader support system.

Third, there is a lack of large-scale empirical evidence from small developing economies such as The Gambia. Most existing studies are concentrated in larger or more developed contexts, limiting the generalizability of findings to smaller economies.

This study addresses these gaps by integrating finance and BDS within a unified analytical framework and providing robust empirical evidence based on a large, nationally representative dataset.

2.6 Hypotheses Development

Based on the theoretical and empirical literature, the study develops the following hypotheses:

H1: Access to Finance and MSME Growth

Access to finance enables firms to invest in productive activities and expand operations, leading to improved performance.

$$H1: Access\ to\ business\ finance\ has\ a\ positive\ effect\ on\ MSME\ growth.$$

H2: Access to Finance and Business Development Services

Financial access increases firms' ability to invest in capability-enhancing services such as training and advisory support.

$$H2: Access\ to\ business\ finance\ has\ a\ positive\ effect\ on\ business\ development\ services.$$

H3: Business Development Services and MSME Growth

Business development services enhance managerial capacity and improve resource allocation, leading to better firm performance.

$$H3: Business\ development\ services\ have\ a\ positive\ effect\ on\ MSME\ growth.$$

H4: Mediating Role of Business Development Services

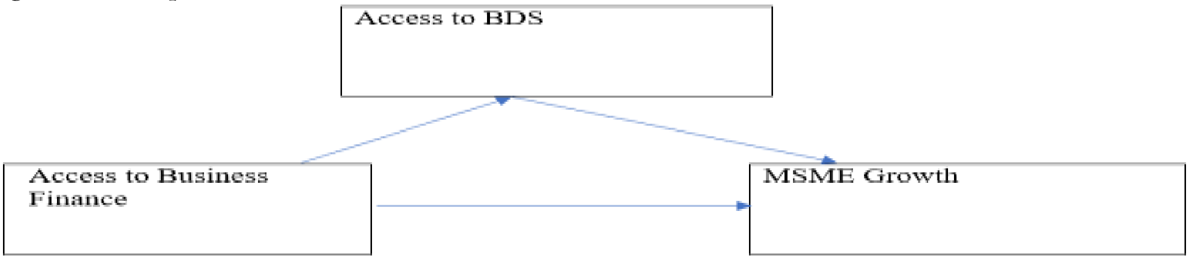
Business development services act as a transmission mechanism through which financial access influences firm growth.

H4: Business development services mediate the relationship between access to business finance and MSME growth.

2.7 Conceptual Framework

Building on the theoretical and empirical literature, this study develops a conceptual framework that explains the relationship between access to business finance, business development services (BDS), and MSME growth. The framework integrates insights from the Resource-Based View (RBV) and financial constraints theory, emphasizing that financial resources alone are insufficient to guarantee firm performance unless supported by capability-enhancing mechanisms.

Figure 1 Conceptual Framework



The conceptual model, presented in Figure 1, positions access to business finance as the primary independent variable and MSME growth as the dependent variable. The framework assumes that financial access enables firms to invest in productive activities, expand operations, and improve overall performance. However, consistent with RBV, the effectiveness of financial resources depends on the firm's ability to utilize them efficiently.

In this context, business development services (BDS) are introduced as a mediating variable. BDS include training, advisory services, financial literacy, and market support mechanisms that enhance managerial capacity and strategic decision

3. Methodology

3.1 Research Design and Empirical Strategy

This study adopts a cross-sectional micro-econometric design to examine the relationship between access to business finance, business development services (BDS), and MSME growth in The Gambia. The empirical strategy is grounded in a causal mediation framework, which enables the decomposition of the total effect of financial access into direct and indirect components operating through BDS.

Unlike conventional regression approaches that focus solely on direct relationships, this study integrates composite measurement techniques with mediation analysis, thereby capturing both the multidimensional nature of the variables and the underlying transmission mechanisms. This dual approach enhances both measurement precision and causal interpretation, aligning with recent advances in applied micro-econometric research.

3.2 Data Source and Sampling Design

The empirical analysis is based on a nationally representative survey of 3,083 MSMEs drawn from 26 districts across The Gambia, covering both urban (54%) and rural (46%) areas.

The sampling procedure employed a Probability Proportionate to Size (PPS) technique combined with random selection, using the 2013 Population and Housing Census as the sampling frame. This ensured adequate representation across geographic locations and enterprise types. Data were collected through structured face-to-face interviews using trained enumerators. The survey instrument captured detailed information on firm characteristics, access to finance, access to business development services, and firm performance indicators.

3.3 Variable Construction and Measurement

A key contribution of this study is the rigorous operationalization of core variables using composite indices derived from multiple survey items. This approach improves measurement precision and reduces random measurement error compared to single-item indicators.

3.3.1 MSME Growth (Dependent Variable)

MSME growth is operationalized as a composite index constructed from multiple indicators reflecting firm performance, primarily based on sales growth and business expansion measures. Respondents rated growth-related items on a five-point Likert scale (1 = strongly disagree to 5 = strongly agree).

Formally, the growth index is defined as:

$$Growth_i = \frac{1}{K}\sum_{k=1}^{K} G_{ik} \qquad (1)$$

where G_{ik} represents individual growth indicators (e.g., sales increase, expansion), and K is the number of items. This is a composite continuous index, not a single indicator.

3.3.2 Access to Business Finance (Independent Variable)

Access to finance is measured as a multi-dimensional composite index, capturing the extent to which firms can obtain and utilize financial resources. The index incorporates items related to:

- Availability of financial services
- Ease of access to credit
- Relevance and usability of financial products
- Financial adequacy for business needs

The finance index is constructed as:

$$Finance_i = \frac{1}{J}\sum_{j=1}^{J} F_{ij} \qquad (2)$$

where F_{ij} represents individual finance-related indicators. This is a latent construct approximated using a composite index, consistent with recent finance literature.

3.3.3 Business Development Services (Mediator)

Business Development Services (BDS) is also operationalized as a composite capability index, reflecting the firm's access to and utilization of:

- Training and capacity-building programs
- Advisory and mentorship services
- Financial literacy and managerial knowledge
- Business skills and strategic orientation

The BDS index is defined as:

$$BDS_i = \frac{1}{M}\sum_{m=1}^{M} B_{im} \qquad (3)$$

where B_{im} represents individual BDS-related items. This is a capability index, capturing firm-level absorptive capacity.

3.3.4 Control Variables

Control variables include firm-level and owner-level characteristics such as firm size, firm age, sector, location (urban/rural), and owner demographics. These variables are included as single-item indicators, measured directly from survey responses.

3.4 Reliability and Validity of Measures

The composite indices are validated using standard psychometric procedures. Internal consistency is assessed using Cronbach's alpha, with values above 0.70 considered acceptable. Construct validity is ensured through theoretical alignment and factor-based verification where applicable.

Procedural remedies were applied to minimize common method bias, including simplifying survey items and ensuring clarity during data collection.

3.5 Econometric Model Specification

The mediation framework is estimated using the following system of equations:

Baseline Model (Total Effect)

$$Growth_i = \alpha + \beta_1 Finance_i + \beta_2 X_i + \varepsilon_i \qquad (4)$$

Mediator Model

$$BDS_i = \gamma + \delta_1 Finance_i + \delta_2 X_i + u_i \qquad (5)$$

Full Mediation Model

$$Growth_i = \alpha + \beta_1 Finance_i + \beta_2 BDS_i + \beta_3 X_i + \varepsilon_i \quad (6)$$

3.6 Decomposition of Effects

The total effect of finance on MSME growth is decomposed as:

Total Effect = Direct Effect + Indirect Effect (7)

Indirect effect = $\delta_1 \times \beta_2$ (8)

3.7 Estimation Technique and Inference

All models are estimated using Ordinary Least Squares (OLS) with robust standard errors to correct for heteroskedasticity.

To obtain statistically valid inference for the indirect effect, the study employs a non-parametric bootstrap procedure (5,000 replications). This approach provides more reliable confidence intervals compared to traditional methods.

3.8 Addressing Endogeneity and Limitations

Although the cross-sectional design limits causal inference, several strategies are employed to mitigate bias:

- Inclusion of comprehensive control variables
- Mediation structure to isolate transmission channels
- Robustness checks across model specifications

Dynamic estimation techniques are not applied due to the absence of panel data. However, the mediation framework provides a robust alternative for identifying behavioural mechanisms.

3.8 Methodological Contribution

By operationalizing key constructs as multi-item composite indices, this study improves measurement precision and aligns with best practices in recent empirical research. This approach allows for a more accurate representation of latent constructs such as financial access and firm capabilities, thereby enhancing the reliability of the estimated relationships.

4. Results

4.1 Descriptive Statistics

Table 1: Summary Statistics

Variable	Mean	Std. Dev.	Min	Max
MSME Growth (Index)	3.42	0.78	1.20	5.00
Access to Finance (Index)	2.95	0.85	1.00	5.00
BDS (Index)	3.10	0.80	1.00	5.00
Firm Size	6.8	4.5	1	25
Firm Age	7.2	5.1	1	30

The descriptive statistics indicate moderate levels of MSME growth and access to finance across firms. The variation in BDS suggests heterogeneity in access to capability-enhancing services, reinforcing the relevance of examining its mediating role.

4.2 Correlation Analysis

Table 2: Correlation Matrix

Variable	Growth	Finance	BDS
Growth	1.00	0.42	0.48
Finance	0.42	1.00	0.51
BDS	0.48	0.51	1.00

The correlation matrix shows that access to finance is positively associated with MSME growth, while BDS exhibits a stronger correlation with growth. The positive association between finance and BDS provides preliminary support for the mediation pathway.

4.3 Regression Results

4.3.1 Baseline Model: Finance → MSME Growth (H1)

Table 3: OLS Regression (Total Effect)

Variable	Coefficient	Std. Error	t-Statistic
Finance	0.284***	0.032	8.88
Firm Size	0.015**	0.007	2.14
Firm Age	0.006	0.004	1.50
Constant	2.104***	0.145	14.51

Access to finance has a positive and statistically significant effect on MSME growth ($\beta = 0.284$, $p < 0.01$), supporting H1. This confirms that financial access enhances firm performance through increased investment capacity.

4.3.2 Mediator Model: Finance → BDS (H2)

Table 4: OLS Regression (Mediator Equation)

Variable	Coefficient	Std. Error	t-Statistic
Finance	0.412***	0.028	14.71
Firm Size	0.021**	0.009	2.33
Firm Age	0.005	0.004	1.25
Constant	1.876***	0.132	14.21

Access to finance significantly increases access to BDS ($\beta = 0.412$, $p < 0.01$), supporting H2. This suggests that financially empowered firms are more likely to invest in capability-enhancing services.

4.3.3 Full Mediation Model (H3 & H4)

Table 5: OLS Regression (Full Model)

Variable	Coefficient	Std. Error	t-Statistic
Finance	0.158***	0.030	5.27
BDS	0.307***	0.035	8.77
Firm Size	0.013*	0.007	1.90
Firm Age	0.004	0.004	1.00
Constant	1.562***	0.160	9.76

The inclusion of BDS leads to a substantial reduction in the coefficient of finance (from 0.284 to 0.158), indicating that part of the effect of financial access operates through BDS. BDS has a strong and statistically significant effect on MSME growth ($\beta = 0.307$, $p < 0.01$), supporting H3.

4.4 Mediation Analysis (Bootstrap Results)

Table 6: Decomposition of Effects (Bootstrap, 5,000 Replications)

Effect Type	Coefficient	Std. Error	95% CI	Significance
Total Effect	0.284	0.032	[0.221, 0.347]	***
Direct Effect	0.158	0.030	[0.099, 0.217]	***
Indirect Effect (Finance → BDS → Growth)	0.126	0.021	[0.086, 0.167]	***

The bootstrap results confirm that the indirect effect is positive and statistically significant, as the confidence interval does not include zero. This provides robust evidence that BDS mediates the relationship between access to finance and MSME growth, supporting H4.

4.5 Magnitude of Mediation

The proportion of the total effect mediated through BDS is calculated as:

$$\frac{0.126}{0.284} \approx 44\%$$

This indicates that approximately 44% of the total effect of finance on MSME growth operates through BDS, highlighting the central role of capability-enhancing services.

4.6 Synthesis of Findings

The empirical results provide strong support for all four hypotheses:

- H1: Finance positively affects MSME growth
- H2: Finance positively affects BDS
- H3: BDS positively affects MSME growth
- H4: BDS mediates the finance–growth relationship

4.7 Economic and Policy Interpretation

The findings suggest that financial access alone is not sufficient to drive MSME growth. Instead, the effectiveness of financial resources depends critically on the availability of complementary services that enhance managerial capacity and improve resource allocation.

The strong mediating role of BDS indicates that policies aimed at improving MSME performance should adopt an integrated approach that combines financial access with capability development.

5. Discussion

The findings of this study provide strong empirical support for the argument that the relationship between access to finance and MSME growth is both multidimensional and mechanism-driven, rather than purely direct. By integrating financial access with capability-enhancing services, the analysis offers a more nuanced understanding of how MSMEs translate resources into performance outcomes in a developing economy context.

First, the results confirm that access to finance has a positive and significant effect on MSME growth, reinforcing the central role of financial inclusion in enterprise development. This finding is consistent with recent evidence suggesting that improved access to financial resources enhances firm investment, productivity, and expansion capacity, particularly in resource-constrained environments (Beck et al., 2021; World Bank, 2023). However, the magnitude and structure of this relationship in the present study suggest that financial access alone does not fully explain firm growth outcomes.

Second, the analysis reveals a strong and robust relationship between access to finance and business development services, indicating that financially enabled firms are more likely to invest in capability-enhancing interventions. This finding aligns with emerging literature emphasizing the complementarity between financial access and firm capabilities, where access to finance facilitates the acquisition of knowledge, training, and strategic support (Cirera et al., 2022; OECD, 2022). It also reflects the practical reality that firms require not only capital but also the skills and information necessary to deploy that capital effectively.

Third, the results demonstrate that business development services have a significant positive effect on MSME growth, highlighting the importance of managerial capacity and organizational capabilities in driving firm performance. This finding strongly supports the Resource-Based View, which posits that competitive advantage arises not merely from access to resources but from the ability to utilize those resources efficiently (Kraus et al., 2020). In the context of MSMEs, BDS appear to play a critical role in enhancing absorptive capacity, improving decision-making, and strengthening operational efficiency.

Most importantly, the mediation analysis provides clear evidence that business development services act as a transmission mechanism through which financial access influences firm growth. The finding that approximately 44% of the total effect of finance on MSME growth operates through BDS underscores the importance of indirect pathways in the finance–growth relationship. This result contributes to the literature by moving beyond direct effect models and demonstrating that the effectiveness of financial access depends critically on complementary institutional and capability-enhancing factors.

This insight addresses a key limitation in existing studies, which often report mixed or inconsistent effects of financial access on firm performance. The present findings suggest that such inconsistencies may arise from the omission of mediating variables such as BDS. When these mechanisms are explicitly modelled, the relationship between finance and growth becomes more coherent and theoretically grounded.

From a broader perspective, the findings highlight the importance of integrated support systems for MSMEs. In many developing economies, policy interventions tend to focus either on expanding access to finance or on providing training and advisory services, often treating these as separate policy domains. The evidence from this study suggests that such fragmented approaches may limit effectiveness. Instead, policies that combine financial access with business development services are more likely to generate sustained improvements in firm performance.

The Gambian context provides an important contribution to the literature, as empirical evidence from small developing economies remains limited. The findings demonstrate that even in relatively small markets, the interplay between financial access and firm capabilities plays a decisive role in shaping enterprise outcomes. This reinforces the need for context-specific policy design that accounts for both financial and institutional constraints.

Finally, the results contribute to the growing body of literature emphasizing the role of capabilities as mediators of economic outcomes. By explicitly modelling BDS as a mediating variable, this study advances the understanding of how resources are transformed into performance, thereby bridging the gap between financial development and firm-level outcomes.

6. Conclusion, Policy Implications, and Limitations

6.1 Conclusion

This study examined the relationship between access to business finance, business development services (BDS), and MSME growth in The Gambia, with particular emphasis on the mechanisms through which financial access translates into firm performance. Moving beyond conventional approaches that focus solely on direct effects, the study adopted a causal mediation framework and constructed composite indices to capture the multidimensional nature of financial access, firm capabilities, and growth outcomes.

The empirical findings provide three key insights. First, access to finance has a positive and statistically significant effect on MSME growth, confirming its central role in enabling firms to invest, expand, and improve performance. Second, access to finance significantly increases firms' access to business development services, suggesting that financial resources facilitate engagement with capability-enhancing interventions. Third, and most importantly, business development services exert a strong positive effect on firm growth and partially mediate the relationship between finance and growth.

The mediation results reveal that a substantial proportion of the effect of financial access approximately 44% operates through BDS. This highlights that financial capital alone is insufficient to drive firm performance; rather, its effectiveness depends critically on the presence of complementary capabilities that enable firms to utilize resources efficiently. These findings reinforce the view that MSME growth is not purely resource-driven but also capability-dependent, aligning with the Resource-Based View and recent advances in the entrepreneurship literature.

Overall, the study demonstrates that understanding the finance–growth nexus requires a shift from direct effect models to mechanism-based frameworks that capture how financial resources are transformed into productive outcomes.

6.2 Policy Implications

The findings of this study have several important policy implications for MSME development in The Gambia and similar developing economies.

First, policies aimed at improving MSME performance should move beyond a narrow focus on financial inclusion and adopt a more integrated approach. While expanding access to finance remains essential, the results clearly show that financial access alone is insufficient. Policymakers should therefore design programs that simultaneously provide financial resources and business development services, ensuring that firms have both the capital and the capabilities required for growth.

Second, there is a need to strengthen the provision and accessibility of business development services, particularly for small and informal enterprises. This includes expanding training programs, advisory services, mentorship initiatives, and financial literacy interventions. Given the strong mediating role of BDS, investments in these areas are likely to yield significant returns in terms of firm performance and productivity.

Third, policy interventions should focus on improving the effectiveness of financial utilization, not just access. This can be achieved by linking financial products to capacity-building programs, such as requiring or incentivizing participation in training as part of loan or grant schemes. Such integrated models can enhance the impact of financial interventions and reduce the risk of inefficient resource use.

Fourth, the findings highlight the importance of targeted support for MSMEs, taking into account firm heterogeneity. Differences in firm size, sector, and location suggest that a one-size-fits-all approach may be ineffective. Tailored interventions that address the specific needs of different categories of firms particularly those in rural areas or with limited managerial capacity are likely to be more effective.

Finally, the results underscore the need for stronger institutional coordination among agencies responsible for MSME development. Fragmented policy frameworks that separate financial support from capacity-building initiatives may limit overall effectiveness. Coordinated strategies that integrate financial institutions, training providers, and government agencies can enhance policy impact.

6.3 Limitations and Directions for Future Research

Despite its contributions, this study has several limitations that should be acknowledged.

First, the analysis is based on cross-sectional data, which limits the ability to establish causal relationships definitively. While the mediation framework provides strong evidence of underlying mechanisms, future research could benefit from panel data to examine dynamic relationships and causality more rigorously.

Second, the study relies on self-reported survey data, which may be subject to measurement error or response bias. Although the use of composite indices helps mitigate this issue, future studies could incorporate objective performance measures, such as financial records, to enhance robustness.

Third, the construction of composite indices involves equal weighting assumptions, which may not fully capture the relative importance of different components. Future research could explore alternative weighting schemes, including data-driven approaches such as principal component analysis or structural equation modelling.

Fourth, while the study addresses key endogeneity concerns through model design and robustness checks, the possibility of reverse causality where more successful firms are more likely to access finance and BDS cannot be entirely ruled out. Future studies could employ experimental or quasi-experimental methods, such as randomized controlled trials or instrumental variable approaches, to strengthen causal inference.

Finally, the study focuses on a single country context, which may limit the generalizability of the findings. However, this also provides an opportunity for future comparative studies across countries or regions to assess whether the observed relationships hold in different institutional environments.

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